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CS-18-008
June 2016

Satya Nadella at Microsoft: Instilling a growth mindset

In early 2018, Satya Nadella celebrated his fourth anniversary as the CEO of Microsoft. Under his stewardship, Microsoft has gone from a company perceived as a Windows-centric lumbering giant to a \$700 billion market cap tech player whose strategic bets on artificial intelligence (AI) and cloud computing were paying off (see **Exhibit 1**). After a decade of flat growth under Nadella's predecessor, the company's share price soared to an all-time high in June 2018.

Nadella remembered February 4, 2014 vividly in his book *Hit Refresh: The Quest to Rediscover Microsoft's Soul and Imagine a Better Future for Everyone*. It was the day he took charge of a company widely portrayed by its own employees as plagued by internal knife fights, bickering and inertia. In his mind, the company's ability to make great technology was never lost. However, a culture of internal competition and "not invented here" mentality had focused employees on a narrow vision of performance over customers and increasingly expansive market opportunities.

An engineer, Nadella thus set out to change the human system at Microsoft. Four years later, he prided himself on the company again becoming a magnet for top engineering talent, a world-class competitor among the heavyweights of the tech industry, and valued partner to companies undergoing their own digital transformation (see **Exhibit 2**).

"People often ask how it's going," said Nadella. "My response is very eastern: We're making great progress, but we should never be done."¹

The "lost decade"

Just 17 days after founder and technical whizz Bill Gates handed over the reins to Steve Ballmer in 2000, the stock market crashed. In the decade that followed, a culture that crippled innovation flourished at Microsoft.

Microsoft's infamous "stack ranking" performance management system pitted employees against each other every six months. Like a stack of LEGO bricks, employees were essentially slotted into top, good, average, below average and poor positions. The forced

Professor Herminia Ibarra, Professor Aneeta Rattan and Anna Johnston prepared this case based on public sources and interviews with Jill Tracie Nichols and Joe Whittinghill.

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