

The Big Read Satya Nadella

FT Person of the Year: Satya

Nadella

Microsoft was at risk of technological irrelevance but the chief executive has presided over an era of stunning wealth creation

Richard Waters in San Francisco 6 HOURS AGO

Satya Nadella, chief executive officer of [Microsoft](#), has earned a unique place among the tech barons who preside over today's digital landscape.

The growing [wealth and power of Big Tech](#) over the past decade has been a defining feature of modern capitalism. Yet even judged by the standards of most of his peers, [Mr Nadella](#) stands out.

By the end of November, the total return generated for Microsoft shareholders during his near-six year tenure passed \$1tn. Contrast that with the moment when he took over as only the third CEO in Microsoft's history, and the software company looked like it might be on the fast track to technological irrelevance.

This stunning exercise in wealth creation has occurred at a time when the purpose and power of large companies has come under more scrutiny than at any time in a century. The single-minded [pursuit of shareholder value](#) is in question, and politicians and regulators are showing a new appetite for challenging the dominant companies of the age — particularly in tech.



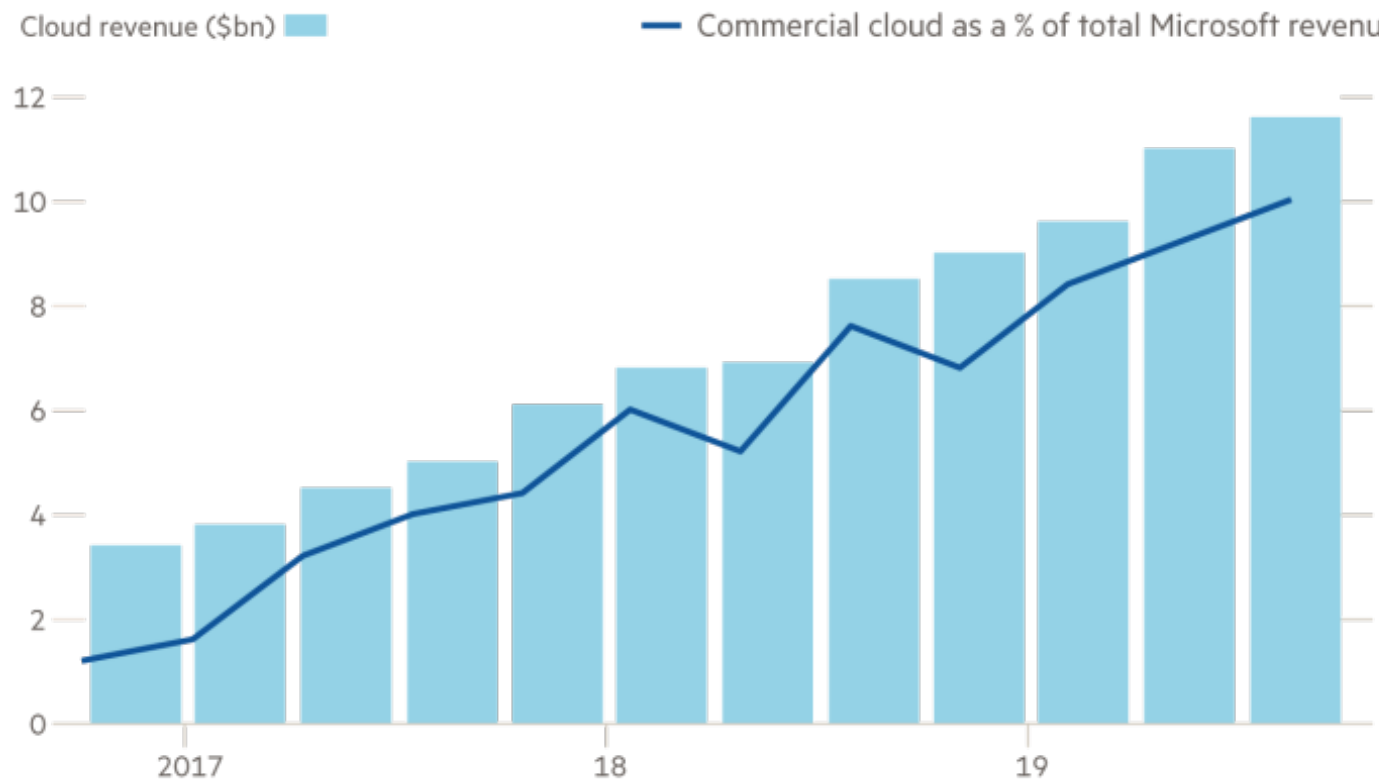
Microsoft chief executive Satya Nadella: by the end of November, the total return generated for Microsoft shareholders during his near-six year tenure passed \$1tn © Gabriel Bouys/AFP/Getty

So it is notable that Mr Nadella has put Microsoft back at the [top of the tech heap](#) without attracting the resentment and anxiety provoked by some other tech leaders — or, for that matter, Microsoft's own former self. The software company was once considered to be the model of the corporate bully, using its monopoly over PC software to hold sway over the tech world.

The equanimity that has accompanied [its recent rise](#) is a testament to the [new purpose](#) at the heart of the company, as well as a corporate culture that reflects the personal qualities of a chief executive more given to humility than the intellectual arrogance the company was once known for.

It is still far too early to judge the impact of the [new Microsoft](#) that Mr Nadella has been building. With control of one of the handful of [cloud computing platforms](#) that stand to dominate tech's next phase, it is likely to wield significant influence over the future of business and society, whether for good or ill.

How the cloud has brought growth back to Microsoft



Company figures; FT calculations
© FT

Mr Nadella himself is well aware of the risks, and claims to have set parameters for his company that will ensure that its impact on the world is benign. At a time when the reputation of the tech industry is moving in inverse proportion to its power, he is also keen to distance himself from the rest of the pack.

“There is no such thing as Big Tech any more,” he declares, a reference to what he claims are key differences in business model between the leading tech companies that have put them on diverging paths. Proving that Microsoft has truly changed its ways and become a new type of tech giant will be the ultimate test.

One mark of Mr Nadella’s success in 2019 has been how seldom his company has been in the headlines. With a focus on selling technology to businesses more than consumers, it operates largely behind the scenes, though it does reach consumers through the Bing search engine and email service, the Xbox games console and tailored versions of its PC software.

There are still plenty of controversies to navigate, from the company’s tussles with the US government over access to personal data hosted on its servers, to the housing shortages and

other growing pains caused by its expansion in the greater Seattle area. Early in the year, it set aside \$500m to support more affordable housing in its home region, pre-empting similar moves by other Big Tech companies later in the year.



Bill Gates, the co-founder of Microsoft, in 1998. The company was once considered to be the model of the corporate bully

Wall Street's growing confidence in the Nadella revival at Microsoft brought a 50 per cent advance in its share price over the course of 2019, nearly twice the increase in the wider stock market. That took its market capitalisation past \$1tn for the first time, and a fifth of the way to a second trillion.

By mid-December, the increase in value on Mr Nadella's watch had stretched to \$850bn. Add in the \$150bn of stock buybacks and dividends paid out over the same period, and the total shareholder returns generated under his tenure now reach into 13 digits.

That is still not as much as Tim Cook, his counterpart at Apple who was [FT Person of the Year in 2014](#), who has clocked up \$1.27tn in shareholder value in eight years (reflecting an \$870bn advance in Apple's stock market value over that period, along with nearly \$400bn in buybacks and dividends). But while Mr Cook has proved himself the operational genius capable of fulfilling the potential of the company built by Steve Jobs, Mr Nadella's record has depended on engineering a [more fundamental corporate revival](#).

“He brought in a new culture, a new enthusiasm,” says Michael Cusumano, a management professor at Massachusetts Institute of Technology. “Microsoft became an exciting place to work again.”

When Mr Nadella took over, Microsoft was in danger of having missed almost every important new technology trend since the turn of the century. An expensive pursuit of Google in the search market had come up short, and social networking had passed it by entirely. Attempts to catch up with Apple and Google in smartphones came to nothing: one of Mr Nadella’s first acts was to shut down the Nokia mobile business Microsoft had bought in a last-ditch gamble. And in cloud computing, a late start left it [far behind Amazon](#).

At the root of the problem was Microsoft’s addiction to the monopoly profits churned out by its PC operating system. The effort to keep Windows at the centre of the computing universe handicapped engineers, hampering efforts to break into mobile and cloud computing.



Nadella, second from right, with Apple boss Tim Cook, US President Donald Trump and Jeff Bezos, the founder and CEO of Amazon

Mr Nadella responded by taking Microsoft back to its roots, looking to a period before Windows when its software tools were used by other companies to build their own technology. “That fundamental notion that we build tools, build platforms so that others can build more technology, I think is more relevant, more needed in 2019 than it was in 1975,” he says.

Aged 46 when he took over, the new chief was only 11 years younger than co-founder Bill Gates. According to Mr Cusumano, though, that was enough to free him from the company's old dogmas: "He's the next generation — he's really part of the internet generation."

As it chases Amazon in cloud computing, Microsoft was recently awarded a landmark US Department of Defense contract worth up to \$10bn. Amazon, the favourite to win the work, has sued the Pentagon, claiming it lost the work because of political bias. But the fact that Microsoft was deemed capable of taking on the assignment, even though it still lacks all the security clearances required, is a sign of the technical capabilities and massive new cloud infrastructure that Microsoft has amassed under Nadella.

Microsoft's board did not turn straight to Mr Nadella when it came to looking for a replacement for Steve Ballmer, instead pursuing a number of potential outsiders to fill the gap. Yet his undramatic elevation to the job in early 2014 was in keeping with a rise that was characterised by technical vision and quiet assurance.

Raised in Hyderabad, the future Microsoft boss failed an entrance exam to the prestigious Indian Institute of Technology, but did earn an electrical engineering degree at Mangalore University before moving to the US to the University of Wisconsin.

His first assignment, after joining Microsoft in 1992, was to work on Windows. But his rise inside the company was defined by a new technology era. He made his name running the search engine Bing — an also-ran against Google, but still a lesson for Microsoft in how to build and run services that reach massive online audiences. He later took on Azure, the company's nascent cloud computing platform.

In a company defined by intense rivalries, naked displays of ambition and cut-throat competition, Mr Nadella's unassuming and collaborative style stood out. It has been central to the new culture he has tried to bring to the company.

Empathy is a quality he prizes highly, and tries to instil in Microsoft's staff. He attributes his own to the experience of a first son who was born with cerebral palsy. It led to years of personal frustration, he has said, before he learnt to be less self-centred about the setback.



Former Microsoft CEO Steve Ballmer. By the time he stepped down the company was in danger of missing out on the cloud computing era. He has promoted a new outlook for Microsoft workers, based on a “growth mindset” that would involve constantly being open to learning and new ideas, rather than the “fixed mindset” of the past — concepts taken [from psychologist Carol Dweck](#). And he worked to break down silos, instead championing a “One Microsoft” approach that would unify the company.

“In the old days, this was the most internally competitive culture I have ever seen — everyone was fighting for their lives,” says Margaret Heffernan, a software entrepreneur who has worked on management issues at Microsoft. “The culture has changed radically.”

Mr Nadella’s use of language has been key, says Ms Heffernan. For people outside the tech industry, his use of jargon can seem stilted. But for those inside the company, simple messages, frequently repeated, have helped to cement the new behaviours.

The results are not always elegant. “We have set aside some of our classic know-it-all behaviour to at least start the journey, culturally, to say, ‘We’d better become learn-it-alls,’” the Microsoft chief says. He calls this adjustment “a hard thing”, given the company’s previous culture.

Peggy Johnson, an early hire to Mr Nadella’s top management group, credits him with an unusual “consistency of message”. That has turned what might have been merely lip-service in another company into an engine for real cultural change. After spending an entire senior

management meeting discussing diversity and inclusion, she says, Mr Nadella went on to repeat the same themes exhaustively: “We never stopped talking about it. It wasn’t just a box-check.”

Microsoft’s business divisions



Acquisitions of LinkedIn, Github and Mojang and cloud computing services have made Microsoft very profitable

MORE PERSONAL COMPUTING

The PC operating system still makes this Microsoft’s biggest division, though it is only 36 per cent of revenues and could soon be eclipsed by newer businesses.

PRODUCTIVITY AND BUSINESS PROCESSES

The most profitable division includes Office. Alongside LinkedIn, Microsoft’s biggest acquisition, it is now building a wider set of services for workers.

INTELLIGENT CLOUD

Home to the Azure cloud computing platform, as well as Microsoft’s server software.

To some extent, the kinder, gentler Microsoft reflects a new era in tech in which the company can no longer go it alone and alliances in areas such as cloud have become more important.

“Satya realised that if we didn’t partner, we wouldn’t grow,” Ms Johnson says.

Mr Nadella himself is careful not to declare victory in the cultural overhaul. After all — as he admits — to do so would itself show the company had slipped back into a fixed mindset. Instead, he says: “From ancient Greece to modern Silicon Valley, the only thing that gets in the way of continued success and relevance, and impact, is hubris.”

The way Microsoft exerts its resurgent power in the tech world will help to determine how Mr Nadella is judged. That has made [its battle with messaging start-up Slack](#) a test of how much the company, once known for its highly aggressive tactics, has really changed.

Slack pulled off a successful stock market listing earlier this year. But its shares have fallen back 50 per cent as investors have worried about a full-on attack from Microsoft, which has been promoting a service called Teams.

Stewart Butterfield, Slack’s chief executive, complains about the way Microsoft has been throwing its weight around, accusing it of being “unsporting”. Teams has been included free of charge with Microsoft’s Office 365 service — a “bundling” technique that once got the company in hot water with regulators when used in connection with Windows. Mr Butterfield says Microsoft keeps putting Teams in front of its Office users, even when they don’t want it: “If you disable it, they enable it for you. If you uninstall it, they reinstall it for you,” he says.

But he adds, grudgingly, of Microsoft’s tactics: “I would probably do the same thing myself.” And he also applauds Mr Nadella’s transformation of the company: “I think he’s made a lot of good strategy choices.”

The Microsoft boss gives Mr Butterfield’s complaints short shrift. “The question he should ask himself is whether Slack would even exist if it was not for Windows, and his ability to distribute on Windows without Microsoft getting in the way,” he says. Just because Microsoft competes on a particular service, he adds, it has not shut off access to its software platforms: “That doesn’t mean we’re locking up one layer to somehow disadvantage him.”

This, according to Mr Nadella, highlights an important difference between Microsoft and other Big Tech members. It does not act as a gatekeeper, instead allowing developers like Slack to reach the Windows audience “without any tax collection”. He adds that the company’s rivals benefit from being able to reach customers freely using Microsoft’s platforms: “Google makes more money on Windows than all of Microsoft. Tell me another platform where that will be true: none.”



Nadella with Facebook founder and CEO Mark Zuckerberg. The Microsoft boss does not see the social media platform as a competitor © Charles Platiau/AFP/Getty

He goes on to contrast the role of companies such as Microsoft with that of aggregators, which dominate a market by amassing far more content than rivals — like Google and Facebook in online media, or Amazon in ecommerce. Referring to how companies like these work, he says: “You commoditise supply. You’re even sort of commoditising the demand, in some ways. That’s a very different dynamic.”

Mr Nadella’s efforts to paint Microsoft as the responsible face of tech is already some years in the making. He was earlier than Silicon Valley rivals to warn of the potential pitfalls of AI — and also earlier to codify possible responses. Under Microsoft president Brad Smith, Microsoft has championed a “Digital Geneva convention”, setting out terms for managing future cyber conflicts.

“They’re taking a much more thoughtful approach to tech,” says Ms Heffernan. “There’s a tremendous opportunity for someone to take these issues up and make themselves the good guys of tech.”

Ultimately, it will be Microsoft’s success as a platform supporting a wider range of digital activity that will determine its value — both to shareholders, and to society at large. According to Mr Nadella, regulators around the world will not stand in its way, no matter how large the company

gets, as long as it generates more wealth for people who rely on its services than it does for itself.

“We have to create a local surplus in every country,” he says. “Bigness by itself is not a problem, as long as the surplus around it is broad. I feel like we’re on the right side of history.”

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