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How Microsoft Can Once Again Punch Above Its Weight

BY KEN FAVARO

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Just after Steve Ballmer announced his resignation last month, I hypothesized here that Microsoft is battling the classic tension between operating as one and as many. The telltale sign is the company's swing from emphasizing "focus and accountability" within its recently disbanded divisions to a loud new call for "One Microsoft." I said that Microsoft is not alone in this battle; every enterprise faces the strain between the whole and its parts. And I promised that we would explore what it takes for any company—including Microsoft—to win the battle.

In our experience, a company must have two big intangibles to punch above its weight: a respected corporate center and a strong corporate affinity. A respected corporate center doesn't rely on compulsion to drive coordination across the enterprise, and it's able to minimize the balkanization, redundancy, and competing agendas that often result from demanding sharp accountability of the organization's individual parts. A strong corporate affinity makes people *want* to collaborate *and* it induces them to accept accountability for producing results without the complete autonomy and authority they can never be given.

So what makes for a respected corporate center? For starters, it measures itself by one key metric: how well the businesses perform in their markets *specifically because they are part of a bigger whole*. It's not good enough for a corporate center just to be the "necessary overhead" that goes with running a large company. The rest of the organization needs a compelling case and tangible evidence of how it benefits from having a head office. There are just a handful of ways for a corporate center to succeed by this measure, and no one company employs all of them, nor do any two employ any of them in the same way.

The most respected corporate centers have a high proportion of people with strong track records in the businesses themselves. More importantly, they value achievement and affiliation rather than power and control, and they act to ensure that the rest of the organization acts similarly. This has the effect of "earning authority rather than demanding it," as Todd Switzer, a former CEO of Cadbury Schweppes, put it to us.

A successful corporate center tends to standardize rather than centralize activities that are common to the businesses, such as payroll, receivables, and payables. Lewis Campbell, CEO of Navastar International Corporation, calls it "communizing," which he defines as "adopting the same language, textbook, tools, and so on, without actually creating a central function." And even when it does create a shared service unit, a respected corporate center grants the businesses latitude to use outside providers, asking any centralized function to compete in much the same way that its businesses have

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to compete—and doing wonders for its credibility with the rest of the organization.

Finally, whether or not the company has multiple profit centers, a respected corporate center knows where, how, and why the company makes money. It knows this by market, product, and customer, regardless of how the company is organized. And it employs this insight for the good of the organization.

So by this definition, what are the chances that Microsoft has a respected corporate center? The company is still dominant in its original operating systems and office applications businesses, but none of its corporate initiatives—including MSN, Bing, Zune, Xbox, and Surface—are outperforming in their respective markets. Microsoft is known to respect high-IQ technology masters above all others and yet few of such people are found in the corporate center. It has chosen to centralize its business functions and risk creating fiefdoms with no apparent market pressure to keep their empires in check. Moreover, the company has moved away from divisional P&Ls, which means the loss of a critical perspective on its growth, profitability, and risk. Any corporate center with these attributes would struggle to achieve both effective coordination and sharp accountability across an organization. It just wouldn't have enough credibility or knowledge to earn the respect required for the job.

This brings us to the second must-have: a strong corporate affinity. Affinity in large enterprises tends to be local—for your team, function, or business unit. This is perfectly natural and it fuels that everyday sense of belonging we all need. But while local affinity is conducive to operating as many, it can work against operating as one. For this, corporate affinity is essential.

A strong corporate affinity requires a shared identity or mission that resonates with everyone. For example, "I'm an IBMer" is a source of great pride for IBM employees, and so is WalMart's mission of "saving people money so they can live better." When Microsoft's mission was "to put computing power on every desk," it had a concrete and inspiring narrative for how Microsoft benefits the world, which created real affinity for the company.

Strong corporate affinity is also derived from people collaborating across organizational silos. When Franz Humer became CEO of The Roche Group, he created an agenda of strategic issues and opportunities that transcended the company's internal boundaries. None of these could be delegated to its silos. He asked top executives to work together on each item. If the company was to be more than the sum of its parts, Humer felt the top team had to be more than the sum of its individuals. What he achieved was greater affinity toward Roche, starting with his own team and followed by the entire company.

Microsoft now faces both a challenge and an opportunity with respect to corporate affinity. The challenge: Its mission "to put computing on every desk" has been achieved so well that it's now out of date, and this has blurred the company's identity. The opportunity: The company's newly centralized structure of product technology groups and business functions makes it natural—and necessary—for the top team to work together on mission-critical strategic imperatives. They'd be wise to look at the Roche example closely.

Microsoft's next leader will face a daunting list of priorities. Whoever it is, the new CEO should put "respected corporate center" and "strong corporate affinity" at or near the top of that list. +

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Dominic Dodd and Ken Favaro, *The Three Tensions: Winning the Struggle to Perform Without Compromise* (Jossey-Bass, 2007).

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