

ONLINE AUGUST 27, 2013

# Looking Inside the Latest Reorganization of Microsoft

BY KEN FAVARO

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In 2005, Microsoft combined six businesses into three divisions and gave each its own P&L. CEO Steve Ballmer argued that simplifying the structure and empowering the fewer, larger units would speed decision making and execution. Eight years later, in what may be his swan song from the corner office, Ballmer announced a new organization, moving from three divisions to four engineering units (operating systems, applications, cloud services, and devices) with centralized functions for marketing, business development, research, finance, HR, legal, and operations.

The divisional P&Ls are gone. “We are rallying behind a single strategy as one company—not a collection of divisional strategies,” Ballmer announced. The intention? Same as last time: to enhance decision making and execution. But this time it would be achieved by encouraging greater coordination across the enterprise, or as Ballmer put it, “by working together with more collaboration and agility around our common goals.”

This could be a classic example of changing structure after shifting strategy (from “software and services” to “devices and services”). Or perhaps it’s a far-reaching attempt to reenergize the troops in the face of Microsoft’s stalled growth and the explosive success of Apple, Google, and Samsung. But I think there’s something else going on: Microsoft is ensnared in a classic tension between the whole and its parts.

Every entity is made up of multiple parts that can operate together as one or individually as many. Operating as one enables organizations to achieve scale economies, leverage technology and a common brand, transfer best practices, share the best people, exchange valuable information, present “one face” to the customer, coordinate sales or pricing, and stamp out duplication. Operating as many frees the parts to shape their own individual paths in pursuit of their particular missions and the results expected of them, thus heightening their sense of responsibility, tightening the perceived link between their actions to results, and intensifying their motivation to perform.

Ideally, you have both, but here’s the rub: A company needs effective coordination to benefit from operating as one, and it needs sharp accountability to benefit from operating as many. This spawns a seemingly intractable tension between the whole and its parts: The more you sharpen individual accountability, the more the parts will decry the “interference” that coordination requires—and the more you’ll see redundant activity and competing agendas. The more you coordinate across the whole, the less the parts can shape their own way and tailor themselves to the specifics of their particular situations. Most companies find it exceedingly difficult to resolve this tension, so they favor one over the other and then have to reverse course down the road.

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This is exactly what has happened with Microsoft. In 2005 its push was for “focus and accountability” of the *parts*. Today, Ballmer is pushing for “One Microsoft, all the time”—a clarion call for greater coordination across the *whole*. “We’ve got to move from multiple Microsofts to one Microsoft,” he said. “We will see [ourselves] holistically, not as a set of islands.” Ballmer compared the old structure to a baseball team, in which players are “more individual in their orientation.” He said the new structure would be more like a football team: “We all play a specific position, and we run every play together.”

Microsoft is clearly in a fight with the tension between operating as one and operating as many, and it’s not at all clear whether the company or the tension is winning.

So how do you beat this tension? At a minimum you must avoid two common mistakes. The first is confusing accountability, autonomy, and authority. Accountability is the obligation to produce results; autonomy is the right to self-govern; and authority is the power to direct people, resources, and decisions. Most business leaders will ask, “How can you hold me accountable if you don’t give me the freedom and power to act?” It may sound like a reasonable question, but it implies an unrealistic demand. The obligation to produce results rarely comes without constraints. Not even CEOs have total autonomy and authority, when you consider the laws, regulations, norms, and contracts within which they must operate and the uncontrollable factors (economic and market) that affect the performance of their companies.

Unfortunately, it’s all too common to conflate accountability, autonomy, and authority. And when that happens, the outcome is inevitably a tragic break down in coordination. The many reports of turf wars between Microsoft’s former divisions are a sure sign that this is what happened in Redmond. Microsoft’s managers were

known to dread circumstances where they had to depend on another division to get something done and to go to great lengths to avoid it, leading to needless duplication.

The second mistake is confusing centralization with coordination. The typical aims of centralization are to reduce costs, become more attractive to functional talent, increase management’s “bandwidth,” ration resources, or align interests. You’ll know it’s at work when an organization throws smaller units into larger ones (such as Microsoft did in 2005); mashes together IT, HR, marketing, manufacturing, and so on into shared units (as Microsoft just did with its new organization); adds intermediate levels of oversight (aka “span breakers”); limits spending authority; force-ranks all employees; and ties everyone’s compensation to the performance of the full enterprise. But because these forms of centralization rely on compulsion—rather than mutual benefit—they are known to widen the gap between where decisions are made and where they are felt, reduce the sharing of ideas and talent, damage motivation, and ultimately dilute accountability of the individual parts.

Microsoft’s new “football” formation is no less susceptible to the tension between coordination and accountability than its previous “baseball” construct. How a company is organized is often not the problem at all. Football team or baseball team, Microsoft still has to operate as one and many at the same time. That’s a challenge every company faces, whether it’s organized around business units, regions, or functions.

Next time, we’ll explore what Microsoft—or any other company—can do to better meet that challenge and how Steve Ballmer’s departure may help or hinder that effort. +

**Resources**

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

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