

## Case Application (Managerial Skills)

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# Microsoft's Make-or-Break Decision: Selecting the Next CEO

By [Ram Charan](#) September 04, 2013

The Microsoft board faces the enormous task of finding the right chief executive to replace Steve Ballmer—not the most charismatic, tech savvy, illustrious, or even most accomplished leader, but the one who fits the precise needs of the company in the future. Making this distinction is the board's most important task.

Nothing can overcome a wrong CEO selection. Yet for many boards, this fit has been elusive. The [average tenure](#) of a Fortune 500 CEO is just 4.6 years. As we've seen at Yahoo!, J.C. Penney, and Siemens, to name a few, the CEOs were very capable leaders with fantastic performance records, but the fit was poor.

One wrong decision in a fast-moving game reduces the effectiveness of the company internally and also its relationships with the ecosystem of suppliers, partners, and distributors that support the organization and its products. Two consecutive failures can ruin the chances of catching up. Witness the tough spot Yahoo is in.

Boards and headhunters always do their job in earnest, but they often seem to miss what is most critical. Correctly defining those three to four nonnegotiable criteria is the Microsoft board's toughest challenge. These are the criteria the board will not compromise on. They will drive the search and, provided they are accurate and sufficiently specific, will lead to the right successor.

This is the approach the IBM ([IBM](#)) board took to make the right decision at a critical juncture. The company had a cash flow deficit and was eroding fast in the early 1990s. It was indecisive and floundering. Its CEO was planning to cut it into seven pieces. Directors Tom Murphy and Jim Burke did a heroic job in recruiting Lou Gerstner. They traveled the world to learn about the company and its external context, then became very specific about what was needed: a leader with business savvy, experience with and a passion for customers, especially enterprise customers, and a record of successfully transforming a unit or company, with CEO experience and enormous common sense. They were explicit that a technology background was not necessary. The results? Gerstner's record stands on its own.

Microsoft's condition is different, as are the times. It has an unmistakably great brand and is financially quite healthy, with enormous annual cash flow. Nobody matches its embedded base in corporations. It has missed some bends in the road, however, such as the major shift to mobile devices from PCs. Its ecosystem—companies that build apps or products using Microsoft technology—is hurting. Demand for the products that generate the largest amount of cash flow is declining.

So what are the new criteria for this game? First and foremost is ability to lead the integration of hardware, software, and advanced analytics with a focus on the consumer, because these are the elements going into devices as well as services. Building this integration capability faster than the competition is essential. The course has been set, but the company has not done well here, whereas Apple has succeeded. The Nokia acquisition brings new opportunity, but the CEO needs to ensure that Microsoft/Nokia devices deliver a consumer experience more compelling than the competition's on an ongoing basis.

Second is the skills to mobilize the ecosystem. Google and Amazon passed Microsoft years ago, but it's not too late. Microsoft still casts a long shadow, and its partners expect it to take the lead. They will jump on board when they see the new CEO has credibility, internally and externally, and has the company on the move and won't miss the next bend in the road. Showing a return on its \$9 billion-a-year expenditure on R&D will make a difference. A move more deeply into hardware through the Nokia acquisition might raise some eyebrows, but tensions and co-dependencies are inherent in any ecosystem, especially in tech.

Third is a record of knitting together a divisive culture. Look at how CEO Alan Mulally has been able to synchronize the top team at Ford, overcoming almost 100 years of divisiveness among organizational silos. He brought his direct reports together every Thursday to get the team on the same page strategically and operationally. Attendance was mandatory. Most of the people he inherited stayed on, but Mulally changed their behavior. Ballmer's recent reorganization might help Microsoft, but any incoming CEO will look at the situation with fresh eyes and decide how to achieve what's needed.

It may be difficult to find a person who meets all these nonnegotiable attributes, but that should be the board's priority. If the board can't find a candidate with the right attributes, there is another option: Recruit an executive chairman who has the maturity and experience as a former CEO to coach and guide a new chief executive who meets most but not all the criteria. That will give the new CEO time to expand his or her capabilities without putting the company at risk of losing sight of the big picture or the business fundamentals.

Of course, other leadership qualities—courage, humility, communication skills, ability to motivate and select the right people—come into play, but the usual characteristics are just table stakes.

Speculation has begun about whether Stephen Elop, now Nokia's former CEO, will succeed Ballmer. My view is this: A robust board will go through a rigorous succession process. Correctly defining the nonnegotiable criteria and assessing who meets them will test the quality of the Microsoft board and define Microsoft's future.

### **Discussion Questions**

1. Compare the criteria for selecting the CEO in Microsoft discussed in the case and Katz's essential managerial skills models and identify the relevant between two. What are the difference(s)?
2. Why does ability to lead the integration of hardware, software, and advanced analytics with a focus on the consumer became the first criterion used to select the next Microsoft's CEO? Is it consistent with the the emphasis of interpersonal skills and conceptual skills for top managers in Katz's model. Do you think Microsoft over-emphasize on knowledge of IT industry?
3. Microsoft has appointed the new CEO - Mr. Satya Narayana Nadella in February 2014. Find information on the new CEO's competencies from the Internet and discuss whether they match with the criteria mentioned in the case.
4. Which criteria can be used for selecting a CEO in an IT corporation in Vietnam, such as FPT and/or Viettel?