

Path forward for Microsoft unclear as Ballmer exits

August 23 2013, by Rob Lever



Microsoft CEO Steve Ballmer speaks during the Microsoft Build Conference on June 26, 2013 in San Francisco, California. Microsoft debuted an upgrade to their Windows 8 operating system during the Microsoft Build Conference that runs through June 28. Justin Sullivan/Getty Images/AFP

The path forward for Microsoft following news of [chief executive Steve Ballmer's departure](#) remains murky as the tech giant seeks to get back on the edge of innovation.

Microsoft said it will look at both internal and external candidates to succeed Ballmer within 12 months, but some analysts say it needs to make dramatic moves.

"The world has moved faster that Microsoft's licensed software business model could respond," said Forrester Research analyst Ted Schadler.

"I think it's a good decision for Steve to step down and pass control to someone else, probably an outsider. Microsoft will then face its IBM or GE moment: Keep the company together or break it apart?"

Roger Kay at Endpoint Technologies Associates said Microsoft "is too big and ungainly and has competing goals" and might be better off broken up into smaller units.

"One thing Microsoft has suffered from is the inability to look honestly at itself," Kay said.

"They say they're going to be the king of search, but they're not. They need to look at the businesses not working and turn them off."

And because of Microsoft's size and diversity of businesses, Kay said, "it's hugely problematic to find somebody capable of taking over Microsoft."

When Ballmer took the reins in 2000, Microsoft was the undisputed tech sector leader and the world's biggest company by market value. But in recent years it has failed to keep up with a fast-changing tech sector.

Microsoft's Windows remains the world's main operating system for PCs, but it has had little impact in the fast-growing segments of tablets and mobile phones.

It has been successful with its Xbox gaming and entertainment console, and has made inroads in cloud computing and business services, but its efforts to get into the [tablet market](#) with its own branded Surface have flopped, resulting in an embarrassing writeoff of \$900 million.

Analyst Jack Gold at J. Gold Associates said Ballmer was "a masterful salesman" but lost touch with the market, and argues that Microsoft now needs a dramatic change.

"What they need is a leader with a new direction—a visionary who can bring back innovation and provide products people are willing to spend money on. Unless such a leader is found, Microsoft is in for a continued, albeit slow, decline."

There is no clear heir apparent at Microsoft, yet some analysts have circulated names of current or former top executives who would be candidates.

Some of the names circulated include the former Windows chief Steven Sinofsky; a former Microsoft executive at Google, Vic Gundotra; or executive vice president Qi Lu. But many Microsoft watchers are betting on an outsider.

Citi analyst Walter Pritchard said new blood is likely: "We expect the company to focus exclusively on outside candidates, meaning that it is very difficult to predict who could be CEO and what direction they will take the company."

Kay agreed, saying: "Ballmer has been effectively driving away top tier talent for years, so basically what you've got in the shop now is the 'yes men.'"

Microsoft appears to be in the same pattern as some other tech

innovators who lost their visionary leader.

Yet few expect a return of Bill Gates, who remains chairman but has left the operational side to concentrate on philanthropy.

But Kay noted that "it's probable that Gates as the chairman will come in and organize things and it will be a stabilizing factor" during the search period.

Microsoft's Ballmer, friend and foil of Bill Gates

Steve Ballmer, Microsoft's outgoing chief executive, was a close friend of company founder Bill Gates, but in many ways his opposite.

Ballmer, known for his competitive nature and outspoken, bombastic style, contrasted with the famously nerdy Gates.

The two were close friends at Harvard University, but Ballmer managed to graduate, while Gates became one of the venerable school's most famous drop-outs.

Ballmer, the best man at Gates's wedding in 1994, joined Microsoft in 1980 as operations manager, after a stint with consumer products group Procter & Gamble.

A native of Michigan, Ballmer grew up in the Detroit area, where his father was a Ford executive.

Ballmer earned his Harvard degree in applied math and economics, and later attended the Stanford Graduate School of Business.

While Gates was the quiet, skinny computer nerd, Ballmer was a beefy, brash jock who liked playing basketball and once had to have surgery on

his vocal cords after screaming out "Windows! Windows!" at a 1991 meeting in Japan.

Before becoming CEO in 2000, Ballmer was senior vice president of sales and support, senior vice president of systems software and vice president of marketing.

Independent tech analyst Jack Gold described Ballmer as a "masterful salesman" who "promoted Microsoft incessantly, and was hugely successful in his first decade."

He drew criticism more recently, however, as Microsoft slipped behind longtime rival Apple and other tech giants.

"Lately (Ballmer) has lost touch with his marketplace and customer base. The infighting and turnover of execs has been dramatic. The seeming lack of vision he exhibited was destructive," Gold said.

Ballmer nonetheless oversaw growth at Microsoft: revenues went from \$23 billion in the fiscal year 2000 to more than \$73 billion in the most recent year.

But the company's market value slid from some \$600 billion in 2000 to less than \$300 billion today, and it has been overtaken by rivals Apple and Google.

In a memo to employees, Ballmer pointed out Microsoft's progress since its early days.

"We have grown from employing just over 30 people to almost 100,000. I feel good about playing a role in that success and having committed 100 percent emotionally all the way.

"We have more than one billion users and earn a great profit for our shareholders."

Despite more than 13 years at the helm, Ballmer has remained in the shadow of his former Harvard classmate Gates, who turned over the CEO job in 2000 and left the operations side in 2008 to focus on his philanthropic foundation.

While Ballmer has amassed a fortune of \$15 billion, earning him the rank of 51st richest individual in the Forbes magazine ranking, that remains well behind Gates, who is number two worldwide and number one in the United States with \$67 billion.

Key dates in Microsoft history

Here are key dates in the history of Microsoft, whose chief executive Steve Ballmer announced he was retiring within the next 12 months:

1975: Childhood friends Bill Gates and Paul Allen launch Microsoft along with the computer language Altair Basic, the first aimed at personal computers.

1980: IBM awards a historic contract to Microsoft which leads to the creation of the MS-DOS operating system which will become the dominant PC platform. Ballmer joins as the 30th employee.

1983: Paul Allen quits Microsoft.

1985: Launch of Windows, a graphically based system of MS-DOS.

1986: Microsoft's initial public offering makes Gates one of the world's richest individuals.

1990: Launch of Microsoft Office. US antitrust officials begin an investigation of Microsoft as a monopoly which leads to a decade of legal battles.

1995: Microsoft moves to adapt to the Internet, launches Windows 95.

1999: Market value for Microsoft hits a record \$620 billion.

2000: Ballmer becomes CEO. The European Commission launches its own antitrust case against Microsoft.

2001: Microsoft settles its US antitrust case, averting a breakup. The Xbox game console is launched.

2008: Gates exits the day-to-day operations of Microsoft to concentrate on his Bill & Melinda Gates Foundation

2009: Bing search is launched.

2010: Microsoft launches its first smartphone operating system, Windows Phone

2011: Microsoft completes its acquisition of the popular messaging service Skype for \$8.5 billion.

2012: Windows 8, aimed at both PCs and tablets, is released, along with Surface, the new Microsoft-branded tablet. Microsoft buys the Yammer social network for \$1.2 billion.

2013: Ballmer announces he will retire by mid-2014

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