

Nadella to head Microsoft; Gates leaves chair role

February 4 2014, by Ryan Nakashima



This May 21, 2008 photo, Microsoft Senior Vice President of Portal and Advertising Platform Group Satya Nadella demonstrates some of the features of Live Search on a mobile device during the advance08 Advertising Leadership Forum at the company's campus in Redmond, Wash. Microsoft announced Tuesday, Feb. 4, 2014, that Nadella will replace Steve Ballmer as its new CEO. Nadella will become only the third leader in the software giant's 38-year history, after founder Bill Gates and Ballmer. Board member John Thompson will serve as Microsoft's new chairman. (AP Photo/Stephen Brashear)

Microsoft has named Satya Nadella, an executive in charge of the company's small, but growing business of delivering software and services over the Internet, as its new CEO. Company founder Bill Gates is leaving the chairman role for a new role as technology adviser.

The software company announced Tuesday that Nadella will replace Steve Ballmer, who said in August that he would leave the company within 12 months. Nadella will become only the third leader in the software giant's 38-year history, after Gates and Ballmer. Board member John Thompson will serve as Microsoft's new chairman.

Indian-born Nadella, who is 46 and has worked at Microsoft for 22 years, has been an executive in some of the company's fastest-growing and most-profitable businesses, including its Office and server and tools business.

For the past seven months, he was the executive vice president who led Microsoft's cloud computing offerings. That's a new area for Microsoft, which has traditionally focused on software installed on personal computers rather than on remote servers connected to the Internet. Nadella's group has been growing strongly, although it remains a small part of Microsoft's current business.

"Satya is a proven leader with hard-core engineering skills, business vision and the ability to bring people together," Gates said in a statement. "His vision for how technology will be used and experienced around the world is exactly what Microsoft needs as the company enters its next chapter of expanded product innovation and growth."

The company said that Gates, in his new role as founder and technology adviser, "will devote more time to the company, supporting Nadella in shaping technology and product direction."

Gates will also remain a member of Microsoft's board.

Analysts hope that Nadella can maintain the company's momentum in the rapidly expanding field of cloud computing while minimizing the negative impact from Microsoft's unprofitable forays into consumer hardware. Major rivals in cloud computing include Google Inc., Amazon.com Inc., Salesforce.com Inc. and IBM Corp.

FBR Capital Markets analyst Daniel Ives said he views Nadella as a "safe pick."

Ives said investors are worried that rivals "from social, enterprise, mobile, and the tablet segments continue to easily speed by the company." In a note to investors, he said the company's main need now is "innovation and a set of fresh new strategies to drive the next leg of growth."



In this Tuesday, Jan. 21, 2014, file photo, philanthropist Bill Gates speaks during an interview, in New York. Microsoft has named Satya Nadella, an executive in

charge of the company's small, but growing business of delivering software and services over the Internet, its new CEO. Company founder Gates is also leaving the chairman role for a new role as technology adviser. (AP Photo/Bebeto Matthews, File)

Microsoft shares rose 15 cents to \$36.63 in morning trading Tuesday.

Nadella's appointment comes at a time of turmoil for Microsoft.

Founded in April 1975 by Gates and Paul Allen, the company has always made software that powered computers made by others—first with its MS-DOS system, then with Windows and its Office productivity suite starting in the late 1980s. Microsoft's coffers swelled as more individuals and businesses bought personal computers.

But Microsoft has been late adapting to developments in the technology industry. It allowed Google to dominate in online search and advertising, and it watched as iPhones, iPads and Android devices grew to siphon sales from the company's strengths in personal computers. Its attempt to manufacture its own devices has been littered with problems, from its quickly aborted Kin line of phones to its still-unprofitable line of Surface tablets.

Analysts see hope in some of the businesses Nadella had a key role in creating.

Microsoft's cloud computing offering, Azure, and its push to have consumers buy Office software as a \$100-a-year Office 365 subscription are seen as the biggest drivers of Microsoft's growth in the next couple of years. Both businesses saw the number of customers more than double in the last three months of the year, compared with a year earlier.

Those businesses, along with other back-end offerings aimed at corporate customers, are the main reason why investment fund ValueAct Capital invested \$1.6 billion in Microsoft shares last year.

Last April, the fund urged investors to ignore the declining PC market—which hurts Microsoft's Windows business—and to focus on the so-called "plumbing" that Microsoft provides to help companies analyze massive amounts of data and run applications essential to their businesses on Microsoft's servers or their own.

"Satya was really one of the people who helped build up the commercial muscle," said Kirk Materne, an analyst with Evercore Partners. "He has a great understanding of what's going on in the cloud and the importance of delivering more technology as a service."

Nadella is a technologist, fulfilling the requirement that Gates set out at the company's November shareholder meeting, where the Microsoft chairman said the company's new leader must have "a lot of comfort in leading a highly technical organization."

Born in Hyderabad, India, in 1967, Nadella received a bachelor's degree in electrical engineering from Mangalore University, a master's degree in computer science from the University of Wisconsin, Milwaukee, and a master's of business administration from the University of Chicago.

He joined Microsoft in 1992 after being a member of the technology staff at Sun Microsystems.

One of his first tasks will be integrating Nokia's money-losing phone and services business. Microsoft agreed in September to buy that and various phone patent rights for 5.4 billion euros (\$7.3 billion) in one of Ballmer's last major acts as CEO. That deal is expected to be completed by the end of March.

Partly because of Nadella's insider status and the fact that both Gates and Ballmer will remain Microsoft's largest shareholders and for now, company directors, analysts aren't expecting a quick pivot in the strategy of making its own tablets and mobile devices.

Some hope, however, that he will make big changes that will help lift Microsoft stock, which has been stuck in the doldrums for more than a decade. Since Ballmer took office in Jan. 13, 2000, Microsoft shares are down a split-adjusted 32 percent, compared with a 20 percent gain in the S&P 500.

"We do not want to see a continuation of the existing direction for the business, so it will be important that Mr. Nadella be free to make changes," Nomura analyst Rick Sherlund wrote in a note Friday.

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