Case for Analysis

How Microsoft's Growth Led to Control Problems

From the beginning, Microsoft organized its software engineers into small work groups and teams so team members could cooperate, learning from and helping each other, and so speed the development of innovative software. Each team works on a subset of the thousands of programs that together make up its Windows operating system and applications software, which is loaded on over 90% of PCs today.[50] In its first decade and even beyond, much of Microsoft's reward system was based on team performance; employees of successful teams that quickly developed innovative software received valuable stock options and other benefits. Microsoft's team-based reward system encouraged team members to work together intensively and cooperate to meet team goals. At the same time, the contributions of exceptional team members were recognized; these individuals received rewards such as promotion to become the managers or leaders of new teams as the company grew.

In 2006, however, Microsoft ran into serious problems with the development of Vista, its newest operating system. Vista had been scheduled to come out in the summer of 2006, but unforeseen delays had put the project six months behind schedule, delaying the planned launch until spring 2007. Many analysts blamed the delay on changes in Microsoft's performance evaluation system, which, because it is now primarily based on individual performance contributions, is hurting team performance. As Microsoft grew over time (it now employs over 60,000 people), it developed a more and more rigid performance evaluation system that became increasingly based on each engineer's individual performance. The manager of each team is expected to rate the performance of each team member on a scale of 2.5, 3.0, and so on, to 5, the highest individual performance rating. Microsoft adopted this system to try to increase the perceived fairness of its evaluation system. Employees still work principally in teams, however, and the new emphasis on individual performance negatively affects the relationships among team members because members are aware that they are in competition for the highest ratings. For example, when confronted with a situation in which they could help other team members but doing so might hurt their own personal performance evaluations, they behave self-interestedly, which hurts overall team performance.

Moreover, Microsoft is highly secretive about employees' performance evaluations, current salaries, and raises. Indeed, employees are told *not* to share such information and can get fired if they do.[51] To make matters worse, the way these evaluations are made by team managers is also highly secretive. And employees believe that when the managers of different teams meet together to discuss which teams (as a unit) have achieved the highest level of team performance, these evaluations are distorted by favoritism. Specifically, leaders of the teams who are liked by *their* managers (often because the leaders actively support their managers) receive higher team evaluations than do leaders of teams who are not perceived as supportive by their managers. Because evaluations are biased by personal likes and dislikes, the performance evaluation system is now regarded as highly political.

Increasingly, engineers and teams perceive they are being evaluated not objectively—by the results achieved—but subjectively, by the ability of an engineer or team leader to "make the right pitch" and curry favor with his or her direct superior. As a result, team members are increasingly pursuing their own interests at the expense of others, and so team performance is declining across the organization.[52] As you can imagine, when team members feel their personal performance contributions are not being adequately recognized, and that even the performance of different teams is not being judged fairly, many performance problems arise.[53] And one of these problems is that many of Microsoft's best software engineers have left to join rivals like Google and Yahoo as a result of their failure to achieve the recognition they think they deserved at Microsoft.[54]

Clearly, when people work in teams, both a member's contribution to the team and each team's contribution to the goals of the organization must be fairly evaluated. This is no easy thing to do. It depends on managers' ability to create an organizational control system that measures performance accurately and fairly and links performance evaluations to rewards so that employees stay motivated and coordinate their activities to achieve the organization's mission and goals. Microsoft's problem was that the changes it made to its control system (new performance evaluation measures) as the company grew hurt its ability to motivate its employees. ■

DISCUSSION QUESTIONS

1. Relate Microsoft's problems with its control and evaluation systems to each of the stages of growth in Greiner's model.
2. Microsoft today is most likely in the growth through collaboration stage. How do you recommend it changes its structure, culture, and control systems to solve its problems at this stage?