



RESEARCH ARTICLE

STRATEGIC ORGANIZATIONAL DEVELOPMENT INTERVENTIONS: A CASE OF MICROSOFT CORP. LIMITED

Dr. Saritprava Das and *Dhaval Bhatt

ITM Business School, Kharghar, Navi Mumbai

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ABSTRACT

A rapidly changing economic environment characterized by globalization, deregulation of market, changing customer and investor demand and ever increasing competition has become a real challenge for today's organization resulting in tremendous pressure on organizations to generate equally fast responses in order to survive and sustain. Organizational change and transformation triggered by a relevant shift leads to several intentional and planned change across organizations which is called Organizational development which aims at overall organizational health and effectiveness by changing the attitude, beliefs, values and structure of organization. In the last one decade industries across sectors have tried their level best to think and act global managing several techno-structural, Human Resource and Strategic Interventions, IT & ITeS sectors are no exception to this change process. With this backdrop the present paper would highlight on strategic OD Interventions in IT sector with special reference to Microsoft.

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INTRODUCTION

What is Organizational Development?

Organizational development is a long range effort to improve organization's problem solving and renewal processes, particularly through more effective and collaborative management of organizational culture, often with the assistance of a change agent or catalyst and the use of the theory and technology of applied behavioral science. Organizational Development (OD) is the process of improving organizations. The process is carefully planned and implemented to benefit the organization, its employees and its stakeholders. Organization Development is fundamentally an organization improvement strategy that utilizes a diverse set of applied behavioral sciences. OD epitomizes planned and deliberate interventions in organizations to improve their current state. Organizations need to "work smarter" and apply creative ideas the effective organization must be able to meet today's and tomorrow's challenges. Adaptability and responsiveness are essential to survive and thrive across sectors and business sectors in the fast changing business environment characterized by globalization and Information explosion.

Today's organization are trying hard to tradeoff between different stakeholders especially internal customers on the one hand and external customers on the other. The work force has changed. Employees expect more from a day's work than simply a day's pay. They want challenge, recognition a sense of accomplishment, worthwhile tasks and meaningful relationships with their managers and co-workers. When these needs are not met, performance declines. Today's customers demand continually improving quality, quick product or service delivery; fast turn-around time on changes, competitive pricing and other features that are best achieved in complex environments by innovative organizational practices. Organizations in this context use planned strategy like OD interventions and there by sustaining and improving organization's capacity to handle crucial aspects such as improved interpersonal and group processes, more effective communication, enhanced ability to cope with organizational problems of all kinds, more effective decision processes, more appropriate leadership style, improved skill in dealing with destructive conflict, and higher levels of trust and cooperation among organizational members.

Organizational Development Interventions

Organizational development interventions are a sequence of activities, actions and events intended to help an organizations improve its performance and effectiveness. Interventions

*Corresponding author: Dhaval Bhatt,
ITM Business School, Kharghar, Navi Mumbai

design derives from careful diagnosis and is meant to resolve specific problems and to improve particular areas of organizational functioning identified in the diagnosis. OD interventions vary from standardized programs that have been developed by many organizations to relatively unique programs featured to a specific organization or department. Designing organization development interventions requires paying careful attention to the needs and dynamics of the change situation and crafting a change program that is consistent with the different criteria of effective interventions. Usually, organization development interventions are designed to fit the needs of the organization are usually based on knowledge of intended outcomes and transfer competence to manage change through organizational members. Intervention design involves understanding situational contingencies such as individual differences among organizational members and dimensions of change process itself. Over all four key organizational factors readiness for change, capability to change, cultural context and capabilities for the change agent affect the design and implementation of almost every intervention.

Types of interventions

Different type of OD that can be used to intervene within an organization, they are as follows:

- 1.Strategic Interventions
- 2.Techno Structural Interventions
- 3.Human process Interventions
- 4.Human resource management Interventions

Strategic Interventions

Strategic interventions can be of utmost importance to create a change within a company as well its relationship with the external environment. Such interventions can be done through mergers or acquisitions, a rapid expansion of the market, new or increased competition from another company or reestablishing relationships with stakeholders. (Schoenlaub, 2015) Strategic Interventions contribute to align the organization with its environment. Cummings and Worley states that these interventions “link the internal functioning of the organization to the larger environment; transforming the organization to keep pace with the changing conditions”. Strategic intervention helps organizations to gain a better understanding of their current state, and their environment, that allow them to better target strategies for competing or collaborating with other organizations. Kormanik includes under the umbrella of strategic interventions, the following: mission / vision / purpose, strategic planning and goal setting, visioning / scenario planning, benchmarking, SWOT, communication audit / strategy, values clarification and commitment, climate survey and culture change.

M&A as a strategic intervention tool

Merger and acquisitions have been used as a strategic corporate restructuring tool in business worldwide for a long time dating back in 1897. They are effective tools in the hands of the management to achieve greater efficiency by exploiting synergies and growth opportunities. (Ms Sohini Ghosh, 2013)

Literature Review

Effective interventions are designed to fit the needs of the organization, are based on casual knowledge of intended outcomes and transfer competence to manage change to organization members. Furthermore, OD interventions seek to change specific features or parts of organizations. Strategic Intervention in particular targets at how the organization uses its resources to gain competitive advantage in the larger environment. (Cummings & Worley, 2007) Mergers and Acquisitions (M&A) are central elements of strategic management. While the number of global M&A (2007: 77,679) and the cumulated transaction volume (2007: US\$ 5.6bn) reached a peak level before the onset of the financial crisis, M&A activity dropped afterwards. In 2011, the level of M&A activity stabilized at 60,914 transactions and a cumulated transaction volume of US\$ 3.2bn (Dijk, 2011). Firms' liquidity is strengthened in times of economic prosperity as well as in highly profitable industries and builds the foundation for M&A intensity (Harford, 2005). In recent years, a growing maturity and sector consolidation of the software industry can be observed (Leger & Quach, 2009). A comparison among 49 industries discloses that the number of M&A transactions in the software industry exceeds all other sectors in the U.S. and in Europe. In terms of cumulated transaction volume, the software industry ranks second in the U.S. and sixth in Europe (Buxmann, Diefenbach, & Hess, 2013) (Mergerstat, 2009). Particularly, recent takeovers of industry giants have reached a remarkable level. This is illustrated by the takeover of Autonomy by Hewlett-Packard for US\$ 10.3bn, Skype by Microsoft for US\$ 8.5bn, and Cognos by IBM for US\$ 4.9bn. These acquisitions accentuate the practical relevance of M&A transactions in the software industry. The importance of the software industry for the global economy needs also to be considered in this light. It represents a significant part of the information and communication technology sector, which contributes 5.4 percent to the global gross domestic product (Datta & Mia, 2010). Software is an immaterial good that can be replicated easily and distributed via the Internet (Stelzer, 2004). Compatibility and industry standard highly determine software's market penetration (DG & Szperski, 2005). While direct network effects are based on standardization and compatibility, indirect network effects can be yielded through complementarity. Products benefit from the market penetration of their complementary products (Gao & Iyer, 2006) Thus, M&A transactions can establish industry standards and hence increase direct and indirect network effects. Through takeovers incumbent software firms, in particular, aim to tap into new markets and to increase the user basis and network effects of their products (Schief & Schiereck, 2013)

Objective of the Study

1. To conceptualize Organizational Development and Organizational Development Interventions
2. To delineate the importance of OD practices for organizations across sectors in changing business environment
3. To critically analyses the influence of market conditions on strategic interventions by IT, ITeS sector with special reference to IT giant Microsoft Corporation Ltd.

Content

Mergers and acquisitions have boomed over the course of the last few decades. From mega-mergers to the mid-market and smaller scale dealings, the comeback of merger era has considerably increased. Companies are thriving to acquire vertically or horizontally to survive in this competitive market. A historical analysis of M & A transaction reveals that they often occur in waves and concentrate on specific sectors. (Andrade G, 2004) Heretofore, in Feb., 2014, Facebook Inc. acquired WhatsApp Inc. a web based messaging application company for \$21 billion. In Sept., 2013 Microsoft announced its buy of Nokia for \$7.2 billion. Acquisition of Skype by Microsoft and so on. One more time Microsoft has made a valiant move of acquiring a professional networking site LinkedIn for roughly amounting to \$26 billion, bringing the per share value at \$196. On June 13, 2016, Microsoft officially announced its acquisition of LinkedIn. The deal will not change the LinkedIn's own brand and independence and the existing CEO Jeff Weiner. He will report directly to Satya Nadella.

"The LinkedIn team has grown a fantastic business centered on connecting the world's professionals, together we can accelerate the growth of LinkedIn as well as Microsoft Office 365 and Dynamics as we seek to empower every person and organization on the planet." *"Nadella said.* (Warren, Microsoft to acquire LinkedIn for \$26.2 billion, 2016)

Boards of both companies have approved the acquisition and the overall acquisition activity will be furbished in latter part of the year. The deal is to be proved as **"Satya Nadella's First Big Acquisition"**.

This is Microsoft CEO Satya Nadella's first major acquisition since he took over the job more than two years ago. It's clear that it is a big acquisition for Microsoft, both in terms of cash value and what LinkedIn brings to the company. (Warren, Microsoft to acquire LinkedIn for \$26.2 billion, 2016)

Motive

Motive behind the Microsoft's move was to position itself in the combination with "the world's foremost professional cloud" together with the "world's leading professional network."

Microsoft

Microsoft - born in America, spread across the world with its varied range of product in the sector of technology such as personal computers and services, computer software and consumer electronics. Today it is a forerunner in platform building and Productivity Company and its mission is to empower every person and every organization on the earth to achieve more. Its product range includes software products such as Windows operating systems, Internet Explorer, Microsoft Office and Office Suite as well as in communication through Skype. Its leading hardware products includes the newly introduced Microsoft Mobile Phones (Lumia Series), Xbox Gaming console and Zune multi media player. It

is the world's biggest software maker by revenue and one of the world's most valuable companies.

LinkedIn

LinkedIn is the world's major as well as valuable organization in professional networking. Over the years, the company has launched a many new version of mobile app, enhanced its newsfeed for better delivery of business insights. In April 2015, it acquired a leading online learning platform Lynda.com to enter in the online education market. With more than 433 million users' worldwide subscribers uses LinkedIn to network with professionals, reconnect with old colleagues and find jobs. LinkedIn also have premium subscription options, which allows subscribers to avail distinguished services.

Prospect Outcome of the acquisition

Microsoft is not sure of how exactly they'll put this acquisition into implementation. But the imagination stands towards Microsoft's intention to boost its social networking presence. It needs to be after a series of high-profile failures, such as Microsoft's doomed \$6 billion acquisition of the Nokia mobile business. (Warren, Microsoft to Acquire LinkedIn for \$26.2 Billion, 2016)

- Prospects are that Microsoft can embed LinkedIn with Skype, outlook and other Microsoft products so that, it will be able 'to recreate the connective tissue for enterprises.' (Feller, 2016)
- Through LinkedIn, Microsoft will not only be able to procure the data about every subscriber's career and background, it will also gain access to the network of executives and professionals they know — what folklores would call their "weak ties" and LinkedIn calls "the economic graph". It holds the data which is to be mined for advertisers and licensed to marketers, further facilitates the sales personnel to pitch the potential buyers. (Gapper, 2016)
- We can see LinkedIn contacts merged up in Word, Excel and searched by Cortana, Microsoft's artificial intelligence tool. Weiner also displayed some ideas for how LinkedIn's services might get integrated with Microsoft's such as interlacing LinkedIn's graph into Outlook, Calendar, Office, Windows and other Microsoft apps.

Precisely it is how momentous and in what way is still a puzzle to observers. One reason for the uncertainty is that we don't know yet what kind of acquisition this is. There can be three possibilities, each with its own rationale and trajectory. (HBR, 2016)

1. Strategic Remix Model - Acquired assets and capabilities are combined with existing assets to generate new business or to save costs

This might be what Microsoft is looking for in this acquisition. But the actual interactions are hard to see, particularly bearing in mind the premium of around \$9 billion that Microsoft is spending over and above LinkedIn's prevailing market value.

Maybe Microsoft is not pushing hard for the value-creation perspective of this remix because it had paid off a big failure for them. The company's 2014 acquisition of Nokia was aimed to generate value by linking its hardware assets with Microsoft's software and services. But the things didn't go right way. Microsoft terminated Nokia acquisition just a few years later. Whereas, Jeff Weiner (LinkedIn) assured its employees of all the independence that their acquirer / new owner will provide to them, just because he had a similar experience in his mind.

2. Private Equity Acquisitions Model - Buying low and hope to sell high after injecting the business with resources

This acquisition by Microsoft is done entirely by raising new debt. However, Microsoft still have around \$100 billion in its kitty. Motive behind raising fund through debt is the interest rate flickering near to zero in US and other developed countries. Hence, a companies like Microsoft can easily get loan at a very cheap cost. While, keeping its cash reserves intact for use of other activities. Another aspect goes like, the price of LinkedIn, even though bought by Microsoft at a spiked price of \$196 is still lower than its 52 week high (\$258.39). But last year was more of traumatizing for LinkedIn stock price due to loss making quarters, leading the market prices to take a dive. This clearly states that Microsoft is surely going cheap buy.

3. Hybrid Model of strategic remix and the private equity models

Under this model, the acquirer finds the business of acquired company promising and prolific but yet risky. Here the intention is to keep the acquired businesses moderately autonomous inflating them with capital and management that may cajole them to grow further. Additionally, LinkedIn's CEO quotes Google's acquisition of YouTube in his address to employees, YouTube got knitted with Google, however allowed the video company to remain independent from other Google businesses, by integrating features of login and sharing of data. Is it what Microsoft looking at? Then it will be the first episode of its own alphabet. And, if this proved to be jackpot, then the list is supposed to grow. Acquisition like Skype in 2011, would also join this strategy. For an organization like Microsoft which conventionally soaked in solid assimilation and control, a strategy like this would be a revolution. (HBR, 2016)

LinkedIn's Aim

1. Stock of LinkedIn was on Downturn

LinkedIn's stock has plunged almost 43 percent from its peak of last year, and chances of increase in stock price was less and far off. That's why, LinkedIn's board agreed for acquisition, especially after its February report where company had dropped its forecasts. Microsoft's buy of LinkedIn for \$196 a share, proved to be a nice bounce for the price from its current market price.

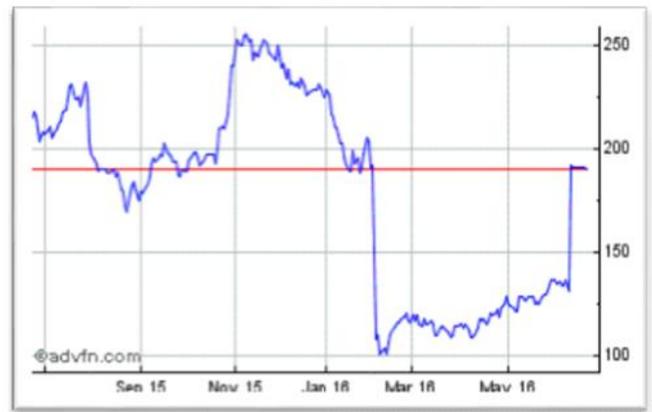


Figure 1. One Year Stock Performance (LinkedIn)
(Courtesy: advfn.com)

2. LinkedIn's growth was a concern

LinkedIn's performance since last few quarters was not under pressure. This made investors very anxious on its future growth prospects. Though the member base increased but the unique visitors per page went stagnant in last two quarters in year 2015-16. If Weiner and Satya Nadella's gamble brings out positively, the acquisition will help LinkedIn grow in term of audience / members' subscription by integrating with Microsoft's product through tie – ups.

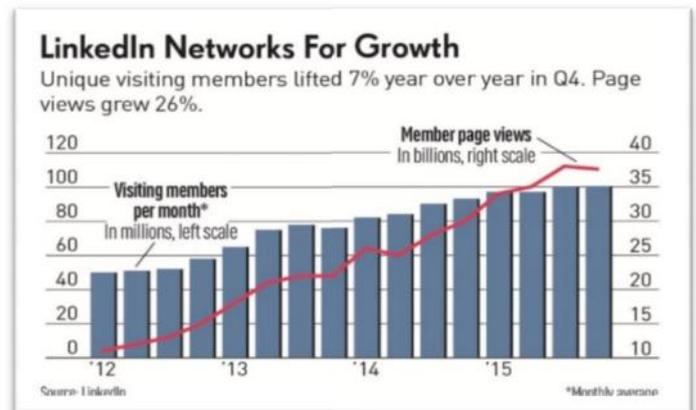


Figure 2. Yearly Performance of LinkedIn (Courtesy: Investors.com)

3. LinkedIn's ad business was slowing down

However, the Larger chunk of sales for LinkedIn are represented by recruitment services, also a substantial 18 percent of LinkedIn's business comes from advertising, both of which are now running downwards. Recently in February, when LinkedIn reported its Q4 earnings, major concern was of its ad business which raised only 20 percent y-o-y compared to its performance a year before which was 56 y-o-y. Hence, it states that LinkedIn's ad business going not as expected. Thus, linking with Microsoft might help, because LinkedIn can now be able to sell ads together with Microsoft Office's product line which have vast customer base than that of LinkedIn's. (Wagner, 2016)

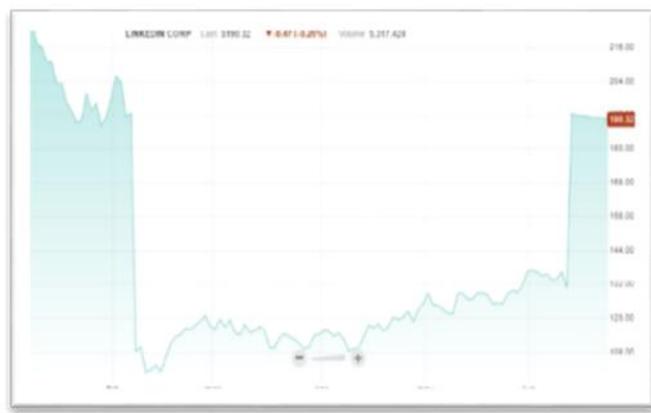


Figure 3. Spike in share price of LinkedIn post Microsoft deal

Effect of Acquisition on Stock Performance

LinkedIn shares jumped almost 46 per cent after the announcement of its acquisition by Microsoft for hefty amount of \$26.2 billion in its biggest-ever purchase. (LinkedIn shares close 46% up post Microsoft deal, other big tech companies drag on Wall Street, 2016). Hence, we can expect a win – win situation for both Microsoft & LinkedIn out of this acquisition.

Critical Analysis

It is found that most of the mergers are done looking for opportunities to acquire key talent, 47% of Senior Management in the acquired firm leave within the first year and companies experience on average a 50% drop in productivity in the first 6-8 months of the integration. (Das, 2000) Hence, it would be very interesting to see the growth patterns of the both firms particularly of Microsoft.

Conclusion

It is Satya Nadella's, immense fondness towards cloud computing which might have motivated him to acquire the LinkedIn, which have a vast network of professionals subscribed to it. Unlike, Microsoft's former acquisitions such as that of Nokia, Skype which didn't reap most value to it. It will be interesting to see how Microsoft will improve its existing operations & products in line to that of LinkedIn and make the best out of this acquisition.

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