

THE ECONOMIC CLUB

O F W A S H I N G T O N, D. C.

**Excerpts from the Signature Event featuring Satya Nadella, Chief
Executive Officer, Microsoft Corporation**

October 4, 2017

“I’m a consummate insider. I’ve grown up at Microsoft. I’ve spent 25 years *[there]*. The thing that I did have is a point of view on what I would do as a CEO. And that, I think, eventually is what the board basically chose *[when deciding who would be the next CEO of Microsoft]*.

“ . . . when you have a business that’s growing super well, it’s got great gross margins, you don’t look around and say, oh, here is another business that’s got crummy growth margins and that’s what we should do next. It’s sort of the hardest challenge in business . . . – in fact, technology or adapting to technology change is easier than *[changing]* a business model.”

“ . . . it took me maybe multiple years, and without being schooled directly, by just watching my wife and how naturally she took to her responsibility *[of caring for a son who was born with a severe case of cerebral palsy]*, I eventually came to the realization that nothing actually happened to me. Something happened to my son, and I needed to step up and see life through his eyes as a father, and do my job. And that, in some sense is – part of writing this book is where I reflected a lot more. It was not a linear thing. It was not a one-time realization. But perhaps most shaped my thinking, as obviously a father, but then as well as a – as a leader and in a company.”

“Bill *[Gates]* and Steve *[Ballmer, the previous CEOs of Microsoft]* were very clear as I was becoming the CEO in saying the best advice – and all the confidence they gave me *[came from encouraging me to]* don’t try to be like us. Steve very distinctly said don’t try to be us – or don’t even try to please us. Be your own person. Do what it takes for you to lead the company. And in some sense, that’s what they prepared me for. I mean, it’s not that I was waiting to be CEO, but I would say the challenges that came my way along my 25 years at Microsoft essentially prepared me to have my own point of view – not just on culture; what to do in terms of our mission, our products, and culture.”

“ . . . two things that I focused the most on was that sense of purpose or mission, and culture. And the reason I felt we needed to do that is I feel that they are necessary conditions to then pick the right strategy, because ultimately you have got to build products, in our case, and innovation that customers love. But I wanted to dig a little deeper and say, OK, what helps us do that? On the culture front, . . . one of the realizations I had was when a company is successful, what happens is the product that makes you successful, the capability around that product, and the culture all get into this beautiful virtuous lock, and round and round it goes. But ultimately, the product that made you successful stops growing, and you need to come up with a new concept, a new product, a new idea. That’s when culture will matter, because the culture cannot fight the creation of that new concept. And so I felt we needed to move to a learning culture.”

“ . . . read this book by Carol Dweck out of Stanford *[University]* called “Mindset,” . . . the simple concept in that book, which I loved a lot, was it’s better to be a learn-it-all even if the know-it-all has more innate capability, because the learn-it-all ultimately will do better. And I said, well, that applies to CEOs. That applies to companies made up of people. And I said: What if we introduce that as the meme to have the cultural dialogue at Microsoft?”

“ . . . *[Microsoft]* had a structure that reinforced how we thought about our products, how we did accountability for products. . . . that’s what most people sort of saw. In fact, we needed to change the conception of these products or how these products are conceived more through the lens of

our customers. So we made some structural changes, the cultural memes that we introduced. Both of those helped us break, essentially, what was inhibiting us from thinking about products differently. Because in high-tech – and I would say pretty much in all business – no competition, no customer respects your org chart, right? I mean, nobody cares. What they care about is, are you serving them well. And sometimes, though, when you create these . . . stable categories and you make them business units and you measure them, you get disconnected from what customers expect. And so you got to keep breaking those barriers down.”

“. . . one of the big changes in Microsoft – which is, in fact, the fastest-growing business inside the company – is what we describe as Microsoft 365. Instead of thinking of any piece of software or any one device, what if we conceive of this as the core communications, productivity, and security solution for modern work? So that was the big change we made, by bringing all of these different product categories *[together]* and making it even work on whether it’s the Apple device or the Android device, and obviously Windows. That has helped us a ton, both not only to make these products more relevant in today’s context, but also *[become]* a huge growth vector for us.”

“. . . the secular trend in computing is cloud, but one of the other shifts which we are well-positioned for is it’s not just the cloud, it’s also the edge of the cloud. In other words, take a factory or take an automobile. The automobile is going to have more compute power than most computers. . . . once you have compute power, you will collect data and you want to be able to reason over data. So this idea of having the intelligent cloud and the intelligent edge is going to true, whether it’s a farm, a factory, an automobile. We are very well positioned for that.”

“. . . every industry – whether you’re in hospitality or whether you’re in cars or whether you’re in financial services – everyone’s becoming a software company. It is important for us to be viewed as a provider of tools, platforms, enabling technology, versus getting into their businesses. So in our case, we have drawn that line. We won’t produce our own cars, but we will provide anyone who is either building autonomous or other – you know, connected cars – real technology that can help them compete, in fact, with some of these Silicon Valley companies.”

“I don’t think of hardware separate from my software. If anything, Xbox has taught us that it’s a complete experience that we build. And that’s what we now have replicated with Surface7 and Surface Studio and what we’re doing with HoloLens8 and Mixed Reality9 . We’re going to continue to innovate, to invent new categories, all the way from silicon to the cloud.”

“My main focus is to make sure that we’re not device-centric. My vision is very straightforward. It’s about the user. It’s the mobility of the user’s experience. And as long as we have our software on any endpoint, or on any device, that’s sort of a start.”

“The last part *[of making the decision whether to divest the acquisition of Nokia, an action that resulted in 20,000 people losing their jobs]* is the tough part. I mean, all – *[making]* the strategic call and so on. At that point, I decided that it was important for us to think more about the mobility of the experience versus define our future in mobile by just our own device share. If you look at it, we have . . . hundreds of millions of people using our software on all of the phones. And they’re on all Windows phones. So we needed to amplify that. But that said, the thing that

weighed the most heavily is the impact on people. I think that these kinds of shifts are hardest when you have to make those kinds of changes. But we did.”

“. . . we are about creating technology platforms and tools so that not only the East Coast of the United States but every part of the world can use digital technology to create a surplus in their company, in their industry, in their region. Because this notion that there’ll be like five or six Silicon Valley companies that are going to basically make profit, is an untenable, unstable situation. And so our business model, our approach to markets is to create more surplus outside, as opposed to just inside of Microsoft.”

“Bill [*Gates*] captures the essence of what I guess is the message of the book, which is when you are pushing yourself through this uncomfortable process of transformation, you need to have that browser logic, that smartness to sort of say, OK, so what is the stuff that needs changing and what should remain? Because if you change everything all the time you’re not going to make much progress, and so that’s why it’s “Hit Refresh.”

“. . . AI is just not another piece of technology. It is, I think, perhaps, one of the more profound technologies that’s going to shape all our lives, all our economies and societies. . . . I want us to grab the opportunities AI gives us to empower people, first. And then, be very clear-eyed about some of the broader implications of AI, whether it is displacement or even this challenge, which I think a lot of people warn against, which is the runaway AI or the runaway optimization problem or the control problem.”

“I’ll give you one example. At Microsoft we launched an app called Seeing AI, that’s available on the app store, which uses the most cutting-edge computer vision technology in our cloud to be able to recognize objects, see people. And now people with visual impairment can use this app to navigate through their life. Similarly, we put some AI-powered tools into Word so that anyone with dyslexia can start reading.”

“The first thing I think we should do is really focus on education and skills, whether it’s in schools or whether it’s for anyone who’s been displaced at work. And in that context, LinkedIn and LinkedIn data . . . this is perhaps one of the places where we should have a fantastic feedback cycle. So instead of talking about all jobs going away, what if we had a network which allowed us to digitize all the jobs, the skills required for the jobs and the training required on a continuous basis, so that we could, in fact, use private money as well as public money to then cultivate those skills. So that’s one thing that we should do. The second thing . . . is let’s not fall a complete victim to this lump of labor fallacy that all jobs that are going to be there in the future have already been created. Let us in fact work to see what can be these new jobs, whether they are digital artisanal jobs or even people-on-people jobs.”

“If you look at some of the unsolved computational problems, even today as we sit here in 2017, we don’t know how to model the enzyme that’s part of natural food production. We can’t . . . develop a catalyst that can absorb carbon. We can’t envision a material that’s superconducting at high temperatures. These are unsolved computational problems. In fact, if you tried to solve these problems using classical computers it would take as much time as there was from big bang to now. Obviously we don’t have that kind of time. That’s where quantum computing comes in.

Just to give you the simplest intuition of what a quantum computer does – assume a corn maze and you wanted to trace a path through a corn maze and you started it in a classical computer. You'd start tracing a path, you'd hit an obstacle. You'd retrace, take another path. And you'd go on and on and on. But the quantum computer is that ultimate parallel computer, where you can take all these paths simultaneously. It'll really give us the compute capacity we need, quite frankly, to solve some of these most pressing challenges.”