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Centre for Regulation of the Creative Economy

University of Glasgow

The Xbox "Reset" and the Future of Creative Autonomy in Gaming

Edited by Sebastian Martin, incoming PhD researcher at the University of Glasgow and CREATe.

CREATe researchers explore Microsoft's July 2026 restructuring of Xbox and what it reveals about consolidation, creative autonomy, and labour in the games industry — and whether "de-consolidation" under financial pressure is any friendlier to creativity than the acquisitions that preceded it.

XBOX GAME STUDIOS

On 6 July 2026, Xbox CEO Asha Sharma sent [a memo to Xbox staff](), published openly on Xbox Wire, announcing what she called "the most significant restructure in Xbox history." The headline figures: approximately 3,200 role eliminations through FY27, with 1,600 effective immediately, concentrated heavily at ZeniMax studios (Bethesda, ZeniMax Online, id Software) and Obsidian. Four studios — Compulsion Games, Double Fine, Ninja Theory, and Undead Labs — are leaving Xbox ownership entirely, while Arkane Studios has entered formal consultation with its French works council over its future. Mojang and King, two crucial elements of Xbox's mobile and multi-platform gaming strategy, now report directly to Sharma — a signal of where near-term revenue focus is shifting.

The memo is unusually blunt about the cause. Sharma conceded that "it is neither possible nor desirable to own every great independent studio," and pointed to management bloat — as many as 14 layers between decisions and delivery — as having throttled the organisation. This is a striking admission from a company that spent 2018–2023 aggressively acquiring studios, culminating in the ~$69–75bn

Activision Blizzard deal, on the promise that scale and catalogue depth would win the platform war against Sony and Netflix-style subscription competitors.

This issue opens an interesting discussion about consolidation, competition law, and creative autonomy in the games industry. Most coverage has read the reset as a straightforward operations story — too many studios, too many managers, too little margin discipline. But it is also, unavoidably, a test case for questions CREATe has raised elsewhere: what happens to creative diversity and labour when platforms both over-acquire *and* divest under financial pressure? Does releasing a studio back into independence restore creative autonomy, or does it just move the risk from 'gatekept' to 'abandoned,' with the studio having no say in the timing either way? Some of the CREATe team offer their perspectives:

Amy Thomas – Lecturer in Intellectual Property and Information Law

"Most of the signalling from this 'reset' suggests that Xbox will now lean into lower risk investments in their game IP — by which I mean, established game franchises, preferably with multiplayer capabilities.

Indeed, Sharma's stated intention is for Xbox to entertain a billion people each day (about 24 times the peak population of Steam, or 1 in every 8 humans on earth). If Xbox's new goal is to attract billions of concurrent players consistently, then this perhaps explains why most of the layoffs and restructuring has moved studios away from smaller (nicher), story-driven, single-player games that almost certainly can't deliver on that possibility (though, I would provoke — can anything?).

Obsidian Entertainment — one of the studios affected by the layoffs, losing about a quarter of their staff — has reportedly been told to cancel plans for a sequel to the critically acclaimed *Avowed*, and instead focus on developing a new, now multi-media franchised, *Fallout* game. And Compulsion, developers of serial-award winning *South by Midnight*, are among the studios being returned to independence. Of course, while there is still new IP being developed and tested in Xbox, it's clear that making creative, well-received games isn't enough to survive the cuts: they need to be repeatedly monetizable and scalable franchises. *Minecraft*, singled out in Sharma's announcement as a good investment, is a prime example of this — now including microtransactions and several spin-offs.

Now, we are left with a sort of live experiment of what happens when you reintroduce an indie game studio back into the wild after triple-A stewardship. It is quite unusual not to simply close a studio in these kinds of restructurings, or to absorb its IP as part of the initial acquisition. Can they survive, or thrive, without Xbox's life support? Compulsion is already advertising their services on LinkedIn.

And as Xbox still seem to be championing the Game Pass route — combined with their player-count ambitions — this continues to suggest that they are optimising their game portfolio with a view to moving away from consoles entirely. Perhaps to offer Game Pass as a standalone, multi-platform app and get out of the hardware 'game' altogether. Indeed, Sharma's announcement also acknowledges Xbox's own hardware 'crisis' as the cost of RAM storage increases exponentially — in part due to the huge energy demands of AI. Given that Microsoft itself is in part contributing to this shortage, this should remind us how small a part gaming is to Microsoft's overall business model — it is perhaps simply not a priority when resources are increasingly being diverted towards AI."

Panagiotis Lampropoulos – PhD Researcher at the University of Glasgow and CREATe

“To echo the words of the summary, it is riveting that riskier creative projects are being removed in favour of the safe and predictable, surely leading to a dip in quality. Copyright itself holds in its possession a tool which, in its foundation, can be used with a view to the substance of a work, namely the right of integrity. While this right cannot be applied in such cases, the principles underlying it should be considered by regulators, especially in a jurisdiction such as the UK, whose copyright regime is grounded in the public interest.

In exploring the Paramount/Warner Brothers Discovery merger in a recent piece in the CREATe Now Trending series, team members encouraged competition authorities to embrace goals such as creative diversity, and the bigger picture, when regulating such mergers and acquisitions, while at the same time questioning whether there is any appetite for such action. In the time since, the UK culture secretary has expressed an appetite to intervene by issuing a 'public interest intervention notice'. However, this would be done on the grounds of media plurality and vague concerns over the merger's impact on streaming services, as opposed to addressing the concerns voiced by creators in the film industry. Thus, it is still not to be taken for granted that the question of quality and diversity of output has reached the ear of, or sufficiently convinced, the UK regulator. Stakeholders in the gaming and film industries alike have their work cut out for them, should their pleas form an effective basis for intervention."

Magali Eben, Ayse Gizem Yasar

“Sharma's announcement on the new Microsoft/Xbox strategy provides some interesting real-life counterfactuals and test cases for questions we have been asking in CREATe research.

Interestingly, the announcement adds some colour to the assumptions made to conditionally clear Microsoft's acquisition of Activision Blizzard: cloud gaming is still faltering and the subscription model has not yet emerged as the panacea that saves it, while exclusivity to a specific platform remains a key strategy; at the same time, the harms to creative diversity (in process and output) and to labour, which were left outside the analyses of competition authorities, more clearly emerge as central issues. Monetisation models dependent on volume and retention are less well-suited to slow-burning, creatively risky projects, and this unwinding of past acquisitions seems to bear that out. Under the new strategy, Microsoft is redoubling its efforts on established, blockbuster, monetisation-driven games and platforms, and letting go of the studios pursuing less mainstream projects.

Our research has raised the question of whether consolidation may reduce innovation in terms of creative diversity, building on Rietveld and Ishihara's work, particularly in the context of cloud gaming. Sharma's figures on cents lost per dollar (64) and management layers per piece of work (14) could be read as an acknowledgement that consolidation was not the best strategy, as is the very clear admission that 'we have also learned that we are not the best home for every type of studio' and that 'it is neither possible nor desirable to own every great independent studio'."

Magali Eben, David Reader, and Amy Thomas

“In blog posts in 2024 (Part 1 and Part 2) we reflected — in response to widespread industry discontent — that closures of small and/or indie games studios after mergers might be termed 'killer' acquisitions (using the terminology popular in competition policy discourse) if the content disappeared and the IP did not return to the market. With Sharma's announcement, we might be seeing a move in the opposite direction. This time, if the announcement bears out fully, studios would be made independent again and the IP rights would presumably return to market (or, at least, those of Compulsion Games and Double

Fine Productions). For the optimists, this could be a surprising and welcome turn in the killer acquisition narrative: maybe it is time for a theory of unkilling, or reviving, acquisitions. Don't worry, we will come up with a better term.

Of course, how this happens in practice will make all the difference to the viability of these re-emerging independent studios and their creative endeavours. Asset-stripping a studio of its prized IP and developers is an obvious pre-sale tactic, and the incentive to do this is sharpened where studios are organically released and there is no benefit in preserving value for would-be purchasers. Even with their IP and top talent intact, releasing these studios back into the wild could be as good as killing them off if, without notice, they are forced to find alternative funding for high-risk projects that were built around expectations of long-term investment from their owners. Where a willing buyer or investor is not forthcoming, does responsible governance dictate that the divesting platform should grant the studio a parachute payment of sorts? These are exactly the details that remain to be seen: on what terms will these studios return to market, in what labour and demand conditions (which are undeniably fraught in the industry), and how will they fare after years within a conglomerate group?

It may be an interesting natural experiment for competition authorities. After all, this 'unkilling' carries many similarities with behavioural remedies and divestitures, which — in our view — have not been used sufficiently to preserve creative diversity in the games industry."

Sebastian Martin – PhD Student at the University of Glasgow and CREATe

"An issue I keep coming back to in my own research is that competition law and much of creative industry commentary will tend to default to innovation metrics like R&D spend, output volume and consumer welfare when assessing whether a consolidation (or its reverse) is good or bad for an industry. Those metrics are measurable, which makes them convenient, but they are not the same thing as creative diversity which forms a large part of the value chain in these industries. Conflating these ideas can quietly write other considerations like creative autonomy and diversity out of the analysis.

Compulsion and Double Fine are two studios known for their idiosyncratic yet creator-driven projects; they are being released back into independence. Mojang and King, both live-service, monetisation heavy and high-volume businesses, are being pulled closer to the centre. This is a statement by Xbox about which kind of creativity they believe is worth owning. There exists an optimistic version of this story. If Compulsion and Double Fine genuinely regain the ability to make what they want, on their own timeline, without 14 layers of management between the idea and the shipped game, that's arguably a win for creative autonomy — the opposite of concentration, in a good way. But it is also worth noting the less comfortable comparison.

The *Paramount/Warner Bros Discovery* merger highlighted concerns about the bargaining power that creators lose under consolidation. Xbox's reset runs the opposite direction — it features divestment, not acquisition — but raises the same question: does direction matter or are creative studios always at the mercy of decisions made on financial terms? A studio that is absorbed evidently loses autonomy, but a studio that has been built up on long-term backing and then let go without notice may lose it too, forced to fund projects that were never designed to stand alone. Neither path was the studio's choice.

It may also lead to similar effects as if the studio was simply closed instead of released. Some aspects of this I will be watching include the terms of divestment and whether Compulsion and Double Fine keep their IP and people with real funding, or whether this is slow-burn closure dressed as independence. I will also be keeping an eye on the centrality of Game Pass and whether, as some other members of CREATe have highlighted, perhaps Xbox is moving away from their more hardware focused enterprises and rethinking what's worth making. Lastly, whether this memo will garner any regulatory attention. The *Microsoft/Activision Blizzard* merger was cleared partly on assumptions that this memo undercuts. If regulators do not revisit them, they risk leaving lessons unlearned."

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