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Microsoft's Changing Ways

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Por Peggy Brooker

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Recently in the news, Microsoft decided to give up their coveted source code and share it with certain countries and organizations. I will address three reasons for this reversal of thinking (1) need for new talent (2) survival in the marketplace and (3) political maneuvering. These reasons will show how important Microsoft is for the development of new media technologies.

My first point of need for new talent addresses what all companies have in order to stay competitive in the constantly changing field of technology. In May, 2002, Microsoft announced it would spend the next two years looking for talent in Asian countries (with a focus on China) and donating money to educational institutions. There are four areas of technologies that Microsoft is focusing on: speech recognition and synthesis, digital pen, panoramic pictures, and multimedia compression for wireless communications networks. (Tham, 2002). By taking this aggressive step, Microsoft can obtain employees for Microsoft China in Beijing, and form relations with the Chinese people.

Another consideration from our class reading of "Pride Before the Fall," by John Heilemann, it was suggested that the antitrust trial had reduced Microsoft's ability to hire the brightest and best available talent. Asian countries, especially China, open up the employment pool so Microsoft will have the talent to help discover the innovative products of the future.

Microsoft has also developed business relations with Chinese companies such as Shanghai Alliance Investment, Beijing Centergate Technology and Stone Group to develop applications for the Asia-Pacific region. (Tham, 2002) This move will help entrenched the Microsoft good-neighbor feeling in the business community of China.

On face value it seemed a simple, positive business move on Microsoft's part. Form positive relations in a foreign country with the people and businesses to help sell Microsoft products. But Microsoft had an even bigger plan in mind when they announced in June, 2002, that a deal had been signed with the Chinese government.

We just signed a deal with the State Council, the country's chief governing body," President of Microsoft China Jun Tang said. "They all use Microsoft products. (Kanellos, 2002)

These moves give Microsoft a significant advantage in providing new and innovative technologies because they will have the talent and business connections to help capture the Asian market.

Until recently, China was considered insignificant in the field of technology. Now China is quite impressive in its competency to capture and excel information in this area.

"Over the next 10 years, China will become a ferociously formidable competitor for companies that run the entire length of the technology food chain." California Venture Capitalist Michael Moritz said. (San Antonio Express-News, 2002)

Another reason to understand why Microsoft invested in Chinese talent and businesses brings me to my second point of survival in the marketplace. Microsoft received bad press from the book "Flying Against the Wind: Microsoft, IBM and Me," by Juliet Wu former Microsoft China General Manager. Wu's best seller book of two years ago told of Microsoft charging higher prices and a lack of commitment to investing in China. (Kanellos, 2002)

The biggest rival for Microsoft in Asia is a company called Red Flag. In 2001, a contract for 2,000 desktop operating systems was given to this company by the municipal government of Beijing for their Linux operating system. Linux is an open source software that appeals to governments because it allows for enhanced security.

Frankly, the contract value is small, but the impact is quite big," CEO of Red Flag Liu Bo said. Bo also said "Microsoft thinks, Were No. 1. You have to buy our products. (Kanellos, 2002)

Other governments in addition to China have also purchased Red Flag's Linux. What is the advantage besides a lower price?

The government would probably like to embrace more open solutions. They probably view Linux as a more open solution because you can see the source code," Director of the Software and Solutions Group at Intel in Shanghai Wen-Hann said. (Kanellos, 2002)

Remembering that the prior mentioned accounts happened in the summer of 2002, I will now focus on Microsoft's announcement in January 2003 to "share" their source code to the Windows' operating system. The following is an explanation of the source code as provided by experts in the field.

Microsoft says they are providing the source code so their clients can be confident about the security of Windows. To a government, that would mean areas of defense would be a high priority to obtain the most secure established form of platform.

Many governments will be able to address limited information-technology budgets and security issues with the open source code. An advantage of the open source vs. Microsoft without open source is suspicious parties may see exactly what's going on in the software it produces. (Shankland, 2003)

"Governments will be able to obtain the source code online, have an engineering-level understanding of Windows architecture, the ability to build more secure environments, and access to cryptographic code and development tools," Microsoft's Senior Vice President and Chief China Strategist Craig Mundie said. (Thibodeau, 2003)

Microsoft's open source code will help systems integrators. For example, Compaq Global Services and Advane Inc. are eligible for the program through Systems Integrator Source Licensing Program (SISIP). (Olavsrud, 2002)

"We will be able to provide quicker time to resolution for our support and systems integration services, as well as improve our capabilities globally to offer a better experience and

satisfaction for implementing Windows-based technology mission-critical solution," Vice President, Enterprise Ready Microsoft, Compaq Global Services Rick Fricchione said. (Olavsrud, 2002)

The source code will not provide a government the ability to alter the source code. "This isn't about developing or supporting customized version of Windows," Mundie said. "its about helping build comfort and trust with our key customers on how Windows is deployed, how security is running and how other software is running on top of Windows." (Thibodeau, 2003)

All these explanations are positive but Microsoft in also using the source code as a means to survive in the marketplace. Red Flag is a fierce competitor and has moved in on the market not just in Asia, but also countries such as Peru, Germany, and Finland.

In February, 2003, Microsoft announced it has not shown a profit in China for the past 10 years. According to the International Intellectual Property Alliance, 92 percent of business software applications sold in China in 2001, were pirated, costing an estimated \$1.14 billion in lost revenue to United States manufacturers. (Hastings, 2003)

Microsoft plans to keep its efforts going because of the sheer size of China's 1.3 billion population. Even though there is a small percentage of personal computers in China compared to its population, their economy is growing at a rapid pace and sales are expected to increase this year making them a viable, lucrative world market.

This is a long-term opportunity of substantial magnitude and strategic importance," Craig Mundie, a Microsoft Senior Vice President and Chief China Strategist told Forbes. "Are we happy if we only make this money over 10 or 20 years? Ultimately, yes. (Hastings, 2003)

With piracy a problem of such magnitude, it stands to reason that one of Microsoft's strategies of providing the source code is to diminish piracy and increase profits. A reasonable Microsoft strategy would be to entice Chinese customers and their government while not alienating them by demanding the piracy issue be addressed. An over zealous attempt to stop piracy could send possible customers to competitors such as Red Flag.

My final point deals with the political ramifications of providing the source code. On February 28th, Bill Gates met with Chinese President Jiang Zemin to discuss future working relations.

"I wanted to get his view on how China is developing the best way for Microsoft to be a very strong partner here in China," Gates said. (Bodeen, 2003)

The significance of the meeting is that Gates wants the China market for Microsoft. He realizes the immense potential for profit and with his superior technical and business mind, will orchestrate every move to accomplish this goal.

No longer is Gates the wounded dog over the United States antitrust trial decision. He is jumping borders and even "going to bed with the enemy." China is not our ally and Gates is using all the political diplomacy he has to move his company ahead of the competition.

There is much speculation in the news as to how Iraq has now obtained the technology they needed to command an attack. In a lecture by

Raymond Leonard, Instructor, History and Anthropology, Central Missouri State University, he indicated that France and China were responsible for providing this knowledge.

I offer these thoughts as speculation to Gates' (Microsoft's) positioning in China. Has Gates bitterness over the antitrust case affected his loyalties? Is this an attempt to increase the bottom line or to show the United States he does not need them?

Several significant business events have happened since Microsoft has given access to the source code. On February 27th, Microsoft signed a deal with state owned China United Telecom whereby they would provide software to help develop new, data-focused services for its 207 million subscribers. (Batson, 2003)

This move gives Microsoft a secure footing in China's mobile phone market. China United Telecom claims to operate the world largest code divisions multiple access (CDMA) standard mobile network, whose 8 million current subscriber base is forecast to reach 20 million by the end of 2003. (Baston, 2003)

On February 28th, CDC Software (a software unit of Chinadotcom Corporation) has named Microsoft as a "Golden Solution Partner" in China. This award adds more credibility to Microsoft and enhances their capabilities to capture China's market.

The award is the recognition of our produce development process by an industry player." Managing Director of CDC Software Alsen Hsien said. "It further demonstrates our continuous commitment to provide high-quality services and products to our clients and our capabilities of developing software products based on Microsoft technology and .NET platform. (Financial News, 2003)

In conclusion, Microsoft's ability to obtain the best talent in China have been increased by the methods I described of combining contributions to educational institutes and forming alliances with businesses.

Microsoft has been eliminating and/or decreasing competition by offering the source code to the Windows platform. There are benefits to governments, system integrators, and most of all, to Microsoft's future in the Asian and European markets.

Does Bill Gates' political maneuvering with Zemin brings questions of allegiance to the United States, or is it strictly business? Already, Microsoft is making headway with receiving the China Telecom deal and the CDC Software award.

By providing the source code, it will enhance Gates' (Microsoft's) ability to have the best people, the best most innovative products to survive in the marketplace, and possibly gain the majority share of the international market through savvy business and political skills. Microsoft is already a big player in the development of new media technologies. If they capture the China market, they will be a major player in this field.

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