

Microsoft takes on the antitrust authorities

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Microsoft was founded in 1975 by college dropout Bill Gates, when he was 20. At 44, and worth an estimated \$85 billion, he stepped down as chairman and CEO. But when his successor took over, the company's fate seemed to be hanging in the balance. Antitrust actions against Microsoft's software empire, specifically for its 'tie-in' sales of applications and operating systems, began in 1990 and continued throughout the 1990s. In the 'browser wars' with its bitter rival Netscape Communications, Microsoft inserted contract clauses to prevent manufacturers of computers and internet services companies from distributing Netscape's browser software. Microsoft was alleged to have violated a court order issued in 1995. In 1997, The US Justice Department and 20 US states brought an action against the company for anti-competitive practices, which were designed to maintain a monopoly in its Windows operating systems and extend that monopoly to internet browsing software, by forcing PC manufacturers to install its internet browser, Explorer, as a condition of installing Windows. Although the court held that the company had used anti-competitive means to maintain its monopoly, by the integration of the two products, Windows and its browser software, the company was able to reach an agreement to alter its practices to satisfy the court.

Microsoft's antitrust problems were not over, however, as it faced legal action in Europe, where other rivals, mainly Sun Microsystems and RealNetworks, complained against the linking of Windows PC system to Microsoft software running on other devices and the practice of 'bundling' into Windows new software features, such as the online media player, which are offered as separate products by other companies. The European Commission ruled in 2004 that Microsoft was in abuse of a dominant market position, fining the company a497.3mn. (\$613mn.) and ordering that it should offer an 'unbundled' version of Windows. The Competition Commissioner Mario Monti said: 'The Commission has taken a decision today which finds that Microsoft has abused its virtual monopoly power over the PC desktop market in Europe' (Dombey, 25 March 2004). The company's next step in its battle against the competition authorities is appeal to the European Court of Justice, which could be a lengthy process. Meanwhile, other complaints against Microsoft have been filed in relation to the company's bundling of other products, including Instant Messenger, Outlook Express and Movie Player, onto Windows XP.

Added to worries about actions from regulators have been the technological and business challenges facing Microsoft. Lapses in security have caused embarrassment for the company, highlighting the vulnerability of Windows to virus attacks, which, given Windows' dominant position, have had far-reaching effects. Another challenge is the rise of the Linux open-source operating system, which is gaining in popularity in the server market, as a potential alternative to Windows. Advocates of open-source systems claim that, as well as financial savings, these systems are less prone to virus attacks. Finally, developments in mobile phone and home entertainment devices are moving the focus of attention away from the desktop PC. In these newer markets, competitors have forged ahead in Windows-free environments. What is more, Microsoft's aggressive tactics have ensured that it will meet with resistance in finding partners in these new areas. Microsoft has seen its strength over nearly three decades as relying on its ruthlessly aggressive corporate culture, but its battles with regulators, coupled with hostility from competitors and potential partners, may, ironically perhaps, dent its competitiveness in the rapidly changing environment.

Sources: Wolffe, R. and Kehoe, L. 'Operating error', Financial Times, 5 April 2000; Wolffe, R., 'Twin options suit Justice Department', Financial Times, 29 April 2000; Wolffe, R., 'Microsoft tries to update legal history', Financial Times, 20 July 2001; Waters, R. 'Microsoft versus Monti: how the challenges to the long reign of Windows are growing in Europe and beyond, Financial Times, 22 March 2004; Dombey, D., 'US giant seeks reason behind ruling', Financial Times, 25 March 2004; Blitz, R., 'The choice is all about the bottom line', Financial Times, 9 May 2005.

Case questions

What is the reasoning behind the judgments against Microsoft in both the US and EU?

How is the company affected by the shifting competitive environment?



Microsoft's website is www.microsoft.com