Microsoft is a global leader in software, services, devices, and computing solutions. It is the market leader in PC-compatible operating systems and office software suites designed to boost human productivity. The company is also active in the services industry, desktop and server software, Internet search, video gaming, digital services, and mobile markets. Microsoft focuses its sustainable and inclusive business activities on digital inclusion, where the short-term investment costs are expected to have positive future returns. The company has worked hard to develop programs that help address the digital divide in a manner that not only connects more people but also introduces them to Microsoft’s products and services. For example, the recipient of free Microsoft Office software through his or her school today may become the business purchaser of the software tomorrow. Microsoft is further committed to putting in place monitoring and evaluation procedures to attempt to measure the impact on communities and its business.

COMPANY OVERVIEW

Founded in 1975, Microsoft is the worldwide leader in software services, devices, and solutions that help people and businesses "realize their full potential." Microsoft seeks to reinvent productivity and business processes, build the intelligent cloud platform, and create more personal computing. Its strategy is to build best-in-class platforms and productivity services for a mobile-first, cloud-first world. Microsoft employs more than 117,000 people worldwide. As of 2015, Microsoft is dominant in both the IBM PC-compatible operating system and office software suite markets. The company also produces a wide range of other software for desktops and servers and is active in areas including Internet search, the video game industry, the digital services market, and mobile phones.

MICROSOFT’S INCLUSIVE BUSINESS EDGE

Microsoft is actively engaged in both sustainability and inclusion activities. Within sustainability, it tries to locate data centers in areas with renewable sources of energy, which drastically lower costs for cooling and electricity. Its inclusion initiatives, however, are what really set the company apart. Within inclusion, the company has a series of efforts aimed at reducing the global digital divide. Microsoft views its efforts in digital inclusion as an important strategy to expand its business into emerging markets. To tackle the digital divide, Microsoft has programs that promote the installation of Internet hotspots in emerging markets and underserved communities. According to research by the World Bank, increasing broadband penetration by 10% yields an additional 1.3% in per capita GDP growth in low- and middle-income countries. This research supports Microsoft’s inclusive business thesis that improved connectivity promotes economic growth through enhanced productivity. Microsoft also believes that its own continued business growth will be helped by its connectivity to developing markets. It is therefore essential that Microsoft promotes Internet access globally, thereby expanding the set of consumers with access to its products. Microsoft also provides its software such as Office to schools for free or at a reduced price, gaining wider exposure of its products in new markets and giving the productivity edge its software provides to more people.

Satya Nadella, the new CEO of Microsoft, has been instrumental in reshaping its inclusive business activities. As the first non-founding
CEO of the company i.e., not Bill Gates or Steve Ballmer, Nadella has helped redefine Microsoft as a productivity company rather than one tied to any suite of products or platforms. This shift in defining its core business has provided new insight into how Microsoft can generate shared value in new markets through inclusive business activities. Microsoft is concerned that digital exclusion fosters greater inequality by enhancing productivity for only those with access; the more someone uses digital technology, the more efficient they become and thus the further behind the digitally excluded fall.

The company works with independent consultants for monitoring and evaluating its inclusive business activities. In addition to traditional profit and loss metrics, the company conducts formal evaluations on all its inclusive intervention work. Prior to any digital inclusion intervention, Microsoft collects information to form a socioeconomic baseline, including metrics such as current access to the Internet, current payment for Internet services, cost of time for access, and other transaction costs. Microsoft currently conducts follow-up studies one year after interventions are implemented and has plans to incorporate data from three-year follow-ups into its impact evaluations. Metrics regarding transaction cost and time spent in procuring Internet services are particularly pertinent to Microsoft. When Microsoft brings connectivity to a community, the people there no longer have to spend time and forgo wages to travel long distances and pay fees for Internet access. Currently, these evaluation results are used internally to support decision-making, but the company also publishes public, formal reports for regulators and partners. As of September 2015, Microsoft was actively working on putting together a framework on estimating the impact of a marginal dollar in its inclusive business, emphasizing the iterative nature of developing such a model.

In an effort to increase Internet access and Wi-Fi connectivity, Microsoft has been a leader in developing new technology to leverage unused television broadcast channels called White Space. Because of the lower frequency compared to Wi-Fi, White Space signals can go much farther and penetrate walls, thus lowering the cost of expanding connectivity. Using this technology requires the cooperation of regulators, who must approve the use of these frequencies for the Internet rather than television. Microsoft works with local Internet Service Providers (ISPs) to develop and maintain the Internet hubs. In Kenya, for example, Microsoft has converted unused shipping containers by using TV antennas, donated hardware and software, and local ISPs to create an Internet hotspot with a 10-kilometer range. This model is being expanded, in conjunction with USAID.

At the core of Microsoft’s inclusive business activities in emerging markets are schools, health clinics, and public spaces. The end goal is to make Internet access ubiquitous. By focusing on public spaces and schools in particular, Microsoft is reducing the travel time to an Internet access point. It is in Microsoft’s business interests if someone doesn’t need to take a two-hour bus ride to get to the nearest Internet café. In Africa, Microsoft is deploying White Space technology as part of the company’s 4Afrika Initiative. The impact of this initiative includes $24 million worth of software donated, support for over 600 non-profits working in Africa, 625 startups supported by Microsoft BizSpark, and over 2,500 students who have earned IT certifications. Through this initiative, Microsoft has provided Internet access to 38 polytechnics in Namibia and is providing Internet to rural health clinics in Botswana. This enables the clinics to be staffed by only nurses, who can send images of an ailment to a doctor and receive a diagnosis or recommendation remotely through their phones. Microsoft works with partners whose interests are aligned wherever feasible in its inclusive business activities, including regulators, non-profits, and other businesses. For example, Microsoft has been negotiating with other companies to subsidize connectivity in exchange for advertising space.

When deciding where to locate its digital inclusion efforts, there are three criteria that must be looked
at: (1) future market opportunity; (2) state of governance; and (3) is there a digital inclusion issue that needs to be solved? Additionally, Microsoft faces competitive pressure from Google, another company focused on digital inclusion and similarly motivated. If Google reaches a particular market first, then Google’s products will have an advantage over Microsoft’s equivalent services.

**CHALLENGES:** The primary challenge to digital inclusion is lack of infrastructure and good governance. Microsoft has a vested interest in promoting telecommunications and telecommunications infrastructure policy around the world. Government regulation is often behind the current level of technology. For example, in India, there are challenges in working with government institutions with layers of bureaucratic red tape. Additionally, wherever Microsoft invests in an emerging market, there is concern about the security of the equipment or software piracy; therefore evaluating the governance is vital in deciding where to focus its inclusive business activities.

Additionally, there are high first-mover costs to installing Internet base stations and using TV White Space technology. Because White Space is still relatively new and not widely used, the cost of manufacturing the equipment is high; as it becomes more widely adopted in the future, the costs will come down.

While expanding its business to provide Internet access fits with Microsoft’s inclusive business model and its core business as a productivity company, the company does not want to be an ISP in the long-run; Microsoft’s main competencies are software, hardware, and cloud services. For now, by providing Wi-Fi and White Space technologies, Microsoft is filling a gap in the market that would otherwise prevent its products and services from reaching consumers. By showing what’s possible with technology, Microsoft hopes to provide evidence to regulators of the benefits of changing regulations in order to expand telecommunications infrastructure globally.

**THE BUSINESS CASE FOR MICROSOFT**

Digital inclusion at Microsoft is focused on Internet connectivity and education. Both categories of initiatives have short-term costs that are counteracted by expected long-term positive returns, as emerging markets develop. The more ubiquitous Microsoft’s Office software is in schools, the more likely those students are to become paying customers of Office for their business productivity in the future. While Microsoft does not see itself as an ISP, providing connectivity in emerging markets is the best way to expand its potential customer base.

The technology markets are changing. Microsoft is shifting its business to “mobile-first, cloud-first” services, which necessitates a different way of interacting with customers. In this “mobile-first, cloud-first” world, Microsoft relies on an ongoing relationship with customers, rather than shipping software on discs. However, in the 21st century, this relationship with the customer requires Internet connectivity, meaning Microsoft will eventually benefit from its digital inclusion efforts. Pew Research Center reports consumers in emerging markets are increasingly introduced to digital technologies and the Internet through mobile phones, rather than desktop computers, further validating Microsoft’s strategy for digital inclusion.


11. BizSpark is a global program that helps startups succeed by giving free access to Microsoft cloud services, software, and support.


