Analysis of Microsoft

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# **Executive Summary**

There are a large number of modes that can be used by an Organisation to enter a foreign market. The choice of mode of entry depends upon various internal and external factors such as Organisational structure and conditions in the country where company is going to enter. Microsoft uses a large number of modes to enter different markets. Innovation is the key to success in all aspects in which the company is operating.

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# ***Introduction***

An entry strategy is an Organisational setting that is used by a firm to provide its products to consumers in foreign markets in the first three to five years of its operations. After this time period, an Organisation is assumed to enter the foreign market fully. The choice of an appropriate foreign market entry strategy will have long lasting impact on profit earning ability and even survival of the firm. A wrong strategy chosen by the company will result in decrease in working opportunities as well as strategic options available to it. There are bright chances that a wrong strategy results in decline in the financial performance as shown by financial statements. One example of such failure is Merrill Lynch which failed to enter the Japanese market in its first attempt because the chosen mode of entry was not the best one. In order to successfully enter a foreign market, companies have to assess their own capabilities and the environment of the country which they are looking to enter.

There are some modes of entry that relate to neoclassical economics as well as Organisational behaviour, but there are shortcomings of using these models in the current business environment. The shortcomings of both these models have been covered in an eclectic model of foreign entry which combines theories from neoclassical economics and Organisational behaviour. Researchersargue that Organisational capabilities are the best source to determine the best mode of entry to a foreign market chosen by a company. Resource based view takes those resources into consideration which are the most important ones for any Organisation. There has not been much empirical evidence about a successful implementation of resource-based theory while choosing the foreign entry mode. Resources like labour have been losing their relative importance with the advent of latest technology and automated products. This also hampers the ability of Organisations to implement the resource based view for choosing the mode of entry.

There are two major theories related to entry to foreign market entry, namely internationalization theory and eclectic theory. In internationalization theory, it is argued that the company should set up its own production facility in foreign country as opposed to keeping a centralized location for its production. There are transaction costs involved in setting up a franchise or other licensing agreements with local businesses. These costs include negotiating, monitoring, and enforcing a contract. Foreign direct investment is the most appropriate option for the companies to enter a market where transaction costs are higher. There are a number of assumptions associated with this theory including perfect competition, similar firms and perfect movement of resources among firms. In current business scenario, this theory has not been successful to explain or support firms entering the international market. This theory is not appropriate to compare any two modes of foreign market entry because of its assumptions.

The shortcomings of internationalization theory compelled the researchers to come up with eclectic theory of foreign direct investment having ownership, location and internationalization advantages as its major components. Ownership advantage means that the foreign firm does not have to compete directly with the local firms. Location advantage means that there is enough potential in the foreign market to allow the company to operate successfully. Internationalization advantage is the benefit that company can attain by controlling foreign subsidiary with the help of FDI instead of licensing or other options to enter foreign market. This theory has not been able to provide a single thought on choosing entry mode for foreign markets. This theory fails to explain why two firms from same business and having same advantages will choose different modes to enter same market.

In the following lines, we will consider a foreign entry strategy adopted by Microsoft and then analyze its structure, knowledge management and innovation to point out relative pros and cons of chosen entry method.

# ***Basic approach of Microsoft***

The approach adopted by Microsoft to enter various foreign markets is extensive growth. This perspective is aligned with the generic growth strategy adopted by the company. To obtain and retain competitiveness, companies have to adopt a generic strategy that suits its Organisational performance. The attractiveness of computer hardware and software manufactured by Microsoft is such that the competitors cannot match them. The generic strategies create competitive advantage and at the same time help company to maintain a broad market scope. The intensive growth strategies ensure that there is continuous growth experienced by the company. Market penetration is used as the main strategy of intensive growth by Microsoft to ensure that it can grow and compete in a highly competitive global market. Successful implementation of growth strategies needs that all the departments work as a whole to achieve goals. This is the major cause of success for Microsoft company.

## ***Microsoft’s Generic Strategy***

The major generic strategy adopted by Microsoft is broad differentiation which requires that the company sells distinguished products to a wide variety of customers. The products offered by Microsoft are unique because of their features. There are special products offered for the business Organisations according to their specific needs. There is no specific market segment catered by company rather it sells to a large number of segments at the same time. Households and business Organisations are two distinct segments which are catered by company. Company has developed a competitive advantage by attracting a large number of customers all over the world with the help of broad differentiation generic strategy.

Microsoft has managed to implement continuous innovation to its processes and products, and it has developed a competitive advantage this way. The innovation aspect is very important for the company if it wants to attain success in the long run. It is also affected by the fact that change in demand of products in terms of specifications occurs very quickly. Another success factor for Microsoft is that it continuously comes up with some unique product features. Company has adopted unique product features as an objective that will lead to implementation of broad differentiation strategy (Kim & Hwang, 1992). This objective includes both tangible and intangible aspects of product to make sure that Company’s competitive advantage remains in place. One example can be placed involving hardware and software products that are difficult to imitate because they are specifically designed for the Windows operating systems. The speed at which Microsoft comes up with new products and innovations, it is hard for the competitors to keep up with the pace.

## ***Microsoft’s Intensive Growth Strategies***

Product developmenthas been the primary strategy used by Microsoft to grow in foreign markets. Product development refers to developing new products that suit the target markets better than competitors as well as old products offered by the same company. Microsoft has been intensively using product development as its strategy to enter the foreign markets. In line with product development strategy, the company has opted for foreign direct investment in some countries whereas in some other countries it operates with the help of licensing. Different factors affect the choice of method to enter any specific market including the PESTEL analysis of the country. Product development also goes well with the generic strategy of differentiation.

Market development is the secondary strategy used by Microsoft for growth purposes. The basic purpose of this strategy is to strengthen control of the existing market by introducing new products in the same market. This strategy is very much in line with the product development strategy, and it will also help Microsoft to be main the unique feature of its products. Market development helps the company to strengthen its footings in already catered markets.

Diversification is another option used by Microsoft to enable it to grow to foreign markets. One example of diversification is when Microsoft acquired Nokia’s devices and services division to reintroduce itself in smartphone hardware market. This is the riskiest option of foreign market entry as compared to all other options because company is entering a new market with an entirely new product.

# ***Different modes of entering foreign markets***

There are various modes that a business can use to enter foreign markets. In the following lines, a brief explanation of all the possible modes is provided.

## ***Exporting Modes***

These modes of entering the international market are related to international trade with the help of exporting and importing activities. This activity is considered as a low risk venture because the company will not have to leave its native place. A firm will indulge in this activity when it has successfully catered the needs and wants of all the local customers. Another reason for opting for this scenario may be that manufacturing processes of a company have reached such a level that it can produce in excess of local demand. Exporting activities can get various forms, such as direct or indirect export. In indirect export, company does not come in direct contact with international customers. In this scenario, a transaction will be treated as a domestic one. When direct export is undertaken, companies or exporters come in direct contact with customers to complete the transaction. A company may have one or more of its employees working abroad just for the purpose of facilitating exports. Piggybacking is a mode of foreign entry that involves two parties namely a rider and a carrier. Rider is generally a small entrepreneur and carrier is a big company. Carrier allows the rider to use its distribution network to increase the reach to its customers. A commission is charged by the carrier in return to these services provided to the rider.

## ***Contractual Modes***

The second group of entry relates to developing cooperative relationships between local and foreign parties. A foreign firm hires a local firm which provides management services to its client. The client is a foreign company that has planned to leave this particular market after the completion of this contract. After some time, this company may start operating in this country based on knowledge gained previously. Turnkey projects include a buyer and a seller in which the seller makes a required amount of investment in a project on behalf of importer, and importer's staff looks after the investment and all other related aspects. Contract manufacturing is undertaken by the companies that hire some part of its production outside the country and main purpose of this shift is to decrease labour or raw material costs. Other motives may include increase in efficiency in using various resources. Sometimes subcontracting may include the semi-finished goods and may take the form of exporting (Moen, et al., 2004).

International licensing is an agreement between a local party that has some valuable patent, technological knowledge that it can give to the licensee. As far as Microsoft is concerned, it is using a wide range of ways to enter foreign markets. The choice made by the company depends upon the situation in the country which the company is entering. The company goes for foreign direct investment in many of the European countries with Ireland receiving 134 million pounds in the year 2015 (Kelpie, 2015). In some less developed countries, many other modes of entry have been used by the company. In some developing countries, Microsoft has opted for licensing options with local companies. This is particularly true for those countries which are facing any kind of political or other similar issues. If we talk about India, Microsoft provides its cloud services with the help of local data centres so that digital transformation can be accelerated across the country (Miicrosoft India, 2019). This is a mixture of foreign direct investment and licensing. In Saudi Arabia, Microsoft has worked through its partners named Sahara net and Lenovo. The company has launched Azure stack which is a cloud computing product and is hybrid in nature (Microsoft News Center , 2018). This is an example of partnering with other companies to explore a market. There can be various reasons why Microsoft has opted for this option in Saudi Arabia, but one main reason might be the unavailability of relevant manpower in this area. Secondly, the country lacks relevant space availability due to the natural habitat of the country. The founder of Microsoft Bill Gates rightly predicted a boom in Chinese economy, and today the largest set up for the company outside of United States is in China (Microsoft News, 2018). This is an example of an independent subsidiary working in a foreign market. If we talk about Germany, Microsoft has a full fledge set up in the country with its headquarter in Munich. This set up runs on the theme of a working environment that can extract best out of employees as well as visitors. Thus, we can say that Microsoft company has used a large number of modes to enter different countries having varying characteristics.

# ***Organisational structure of Microsoft***

The organisational structure of Microsoft can be seen as a product type divisional structure which includes divisions based on various products especially the hardware and software products related to computers. The most dominant aspect of organisational structure is product type division. A product or output is used to group resources like people and finance. Cloud products represent one of main divisions of enterprise. The product division structure supports growth and innovation strategy that was discussed in the introduction and body sections. If any aspect of any product has to be improved and relaunched, only the relevant department will be responsible to enact the whole plan. Success or failure of launching a new product will not affect the performance of any other product or division. Similarly, a variety of foreign entry modes can be adopted because every product is suited to different set of techniques when it is introduced to a new market. Even in case of market development, this structure will help the company to assess the needs of a particular market and it will then launch the appropriate advancement of a product in the existing market (M.Sciulli, 1998).

Global corporate groups are secondary characteristics of the Organisational structure in Microsoft. These groups comprise of services which are essential to run smooth business operations. The HR group oversees human resource needs of various divisions and concerns related to them. All essential aspects of a business, e.g. marketing and finance are run in form of these groups.

In addition to above two structural forms, company operates on basis of geographic segments as well. There are only two major geographical segments namely United states and international (Lombardo, 2018).

# ***Knowledge management at Microsoft***

Knowledge management refers to managing data, documents and people efforts. It is not enough to have individuals with high levels of knowledge in ever changing business world of today. A high score on corporate IQ is also required which will help staff members to share and build upon each other’s ideas. Microsoft is a leading company in computer related products and many of its products have been developed as a result of ideas from inside the company. Related departments have improved ideas given by employees to come up with a final break through product. Power does not come from knowledge kept within people but with knowledge shared and managed (Akhavan, et al., 2006).

# ***Innovation***

Innovation is a historical and irreversible alteration to the way things are done in any Organisation (Chesbrtough & Melissa M, 2007). The innovating Organisation has to answer a question about impact of innovation on its capabilities, competence, existing products, key concepts and links between them. It is much easier to answer this question in an Organisation like Microsoft which has showed innovation and growth as its major tool for success. The innovation undertaken by Microsoft has positively affected almost all aspects discussed in above question. The innovation has enhanced core concepts at Microsoft Corporation and there has been a higher level of innovation after every success. Innovation has always enhanced the linkages between core concepts and various components. Product components change as a result of innovation because of the nature of company products. Mostly, innovation is related to products and more specifically with particular components of these products. Thus, innovation enhances the product components produced by Microsoft. Innovation increases competence in terms of skills and knowledge from previous innovation. Some of the existing products produced by Microsoft are able to use the complementary innovation. A practical example is the new version updates of windows launched by the company and updated on all systems previously run on older versions. Since the basic constituent of company policy is growth and innovation, there will be enough institutional support for innovation within the Organisation (N.Afuah & Bahram, 1995). All the factors discussed under the head of innovation will support Microsoft when it decides to enter any foreign market. This is also the reason why Microsoft has been very much successful despite using different entry modes to enter different markets.

# ***Conclusion***

There is a coherent and unidirectional effort made in Microsoft to achieve objectives of growth and innovation. Company has adopted a structure that will not only assist in implementing growth strategies for the company but also help in innovation. Especially product-based structure will help company to keep track of innovation related to various products. As far as modes of foreign entry are concerned, company is using different modes to enter different foreign markets based on difference in resources, needs and requirements in these markets. Knowledge management is also related to the culture of innovation because knowledge is at the root of innovation and managing knowledge properly has resulted in innovation in Microsoft. Lastly, the innovation aspect has affected every single bit related to the Organisation. This is especially true for the important aspects like products and their components. In the industry like computing, innovation is the key to success and Microsoft has used this key to become the industry leader. In order to retain its position of industry leadership, it will have to maintain the level of innovation and coherence among its various components. It will also have to continue working as a single unit that is destined to go in only one direction and that is to grow.

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