

software industry helped Microsoft build the institutional support it needed to develop its business in the market.

Microsoft also sought to address piracy through adaptation. The company introduced differentiated versions of products to meet local price constraints and potentially help confront piracy. Windows Starter edition, for example, was introduced as a simple, low-cost product for first-time PC users. By offering the product at a price within reach of lower-income consumers in emerging markets, Microsoft hoped to reduce demand for pirated versions of the software. The company has also experimented with subscription-based offerings and cheap software packages for students to introduce—and hopefully instill—the brand among new segments and generations of customers. These efforts substituted for the absence of consumer credit for low-income customers.

To piggyback on the explosive growth of cellular phones in China and India and to expand access to basic PC applications to customers who did not own conventional PCs, Microsoft developed FonePlus, a “starter edition” of Windows Mobile. The product offers some PC capabilities on a cellular phone, which can then be linked to a television and used as a basic home computer with external keyboard. Microsoft has viewed experimentation as essential to the company’s adaptation to the contexts and preferences of emerging markets, as one company executive has noted:

You’ve got to view these potentially disruptive innovations and models as sources of long-term business advantage for you because, sooner or later, these same business models will scale to other countries—both developing and developed. So I’ve been arguing for the two and a half years I’ve been at Microsoft that [we should] view India, first and foremost, as a lab for disruptive innovation. Even more than a resource base, view us as strategically important because we are a laboratory for these kinds of crazy innovations, which in the short term are disruptive, but tomorrow open up whole new sources of competitive advantage.<sup>39</sup>

Lecturing the government about the problems posed by intellectual property rights (IPR) infringement did not work. Instead, Microsoft joined with local partners, positioned itself as a partner in progress, and pursued experimental adaptations such as differentiated pricing (see table 4-5). Microsoft worked to develop research and development capabilities with local talent in China, exploiting the country’s factor markets where it could work around institutional voids and also offer jobs and training to the market—a positive proposition for the country’s government and a seed of public support for Microsoft.

TABLE 4-5

**Microsoft in China: Responding to institutional voids**

Spotting void question	Specific void	Response
What restrictions does the government place on foreign investment? Are those restrictions in place to facilitate the growth of domestic companies, to protect state monopolies, or because people are suspicious of multinationals?	Foreign companies not treated even-handedly by regulators (regulators)	Collaborated: Codeveloped localized version of Windows with local software firm
Can companies access raw materials and components of good quality? Is there a deep network of suppliers? Are there firms that assess suppliers' quality and reliability? Can companies enforce contracts with suppliers?	Limited expertise in domestic software industry (aggregators and distributors; credibility enhancers)	Collaborated: Invested in the development of Chinese software industry
Do consumers use credit cards, or does cash dominate transactions? Can consumers get credit to make purchases? Is data on customer creditworthiness available?	Limited access to credit for cash-strapped customers (transaction facilitators)	Adapted: Experimented with subscription model, differentiated versions of products
Do the laws articulate and protect private property rights?	Intellectual property rights not protected (regulators)	Attempted to change context: Offered seminars on IPR law, scholarships for law students focusing on IPR law