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Ethics or Self Interest: An Examination of the Past and Potential Future of Microsoft's Philanthropy in Light of Gates' Succession

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Abstract

This paper will take a critical look at the nature of Microsoft's past philanthropic efforts as well as speculating on the future of those efforts as a correlative of the departure of Chief Software Architect Bill Gates. Both the positive and negative sides of Microsoft's CSR campaign will be addressed. The paper will also cast a wary eye over the potential of Gates' new Foundation, the effects of the Warren Buffett donation, and the role the Foundation might play in the future of world philanthropic initiatives. While numerous possibilities will be analyzed, this paper will focus more on the less broadly emphasized negative side to Gates' succession.

A new emphasis on corporate social responsibility (CSR), or "business ethics," has locked many large corporations into an interesting and previously unheard of competition. CSR, as touted by an aggressive media and a 'green-conscious' consumer body, has put pressure on company public relations (PR) divisions to cast their products as more humanitarian or environmentally friendly than their competitors'. Generosity as a business policy, from which companies have the potential to derive considerable economic advantage, has transformed, to a degree, their former image as lumbering, insensitive, socially destructive institutions. And there are few companies who have handled media attention targeting CSR more effectively than Microsoft.

Microsoft, as established by Bill Gates in 1980 as IBM's first desktop PC operating system, was the most powerful software company in the world by the early 90's. One of the principle reasons for this meteoric rise to market dominance was Microsoft's commitment to broad and assertive PR campaigns and advertisement. By 1993, it blew every other software company away in publicity and innovation, boasting a \$100 million ad campaign that very year. Gates' aggressive product strategies and consolidation of numerous markets have garnered a considerable degree of public criticism in the past, even resulting in an antitrust lawsuit in 1998. Yet however spotty Microsoft's competitive record, or perhaps because of it, the software giant has been for the last few decades one of the world leaders in corporate philanthropy.

There is no denying the impact of Microsoft's munificence on its beneficiaries. In 1995, Microsoft gave over \$73 million in cash and software donations to various charities, making it the top U.S. corporate giver to charity for that year. In 1996, Microsoft donated over \$80 million to universities and colleges across the nation, as well as giving large handouts to major international relief organizations such as Save the Children and Mercy Corps. However, it is important to note that of the \$73.2 million donated in '95, \$63.1 million – 85% of the total - was in the form of free software. This has been labeled by some as "Virtual Philanthropy;" software, once it has been researched and released, has a production cost fifteen times less than its shelf price. In reality, Microsoft's overwhelming generosity costs them very little. And the potential long-term rewards of such donations

are certainly substantial.

Microsoft reaps three significant benefits from its seeming generosity. The first is cheap and powerful publicity – the money Microsoft loses in making its donations can be reconciled economically by the positive attention it receives from media and other sources. The company actually spends more money on ad campaigns than on aid work, a considerable amount of which is likely focused on promoting its own benevolent image. The second benefit derives from the fact that donations to charity in the United States are tax deductible – money donated becomes to a certain degree money saved. This serves to further reduce the cost burden of Microsoft's gifts. And finally and least perceptibly, those developing nations, organizations and institutions that accept gifts of software from Microsoft become tied to its product line.

However flexible the technological developments of the software industry, its consumers are markedly loyal – once a person learns how to work with the IBM or Apple interface, they tend not to switch. When Bill Gates has Microsoft give away free software, he is making a conscious business decision with future benefits in mind. Software ages very quickly, far more quickly than hardware, and while each generation of Microsoft updates may be sold at a discount to those who initially received the software freely, the recipient has nonetheless become a Microsoft customer. For example, in October of '97 Microsoft spent \$10.5 million on software and computers for libraries in and around New York City. In doing so, Microsoft increased the number of people who used its software in a demographic that probably could not afford to buy its products. This created a pool of potential future customers and edged out weaker competitors incapable of such product effusion. The result is similar if not more potent in developing countries, where Microsoft's software donations have the potential to tie entire nations to Windows.

Bill Gates played a rather reprehensible game in order to solidify the position of Windows as the world's leading operating system. In broadening Microsoft's control over the software market, Gates sold the Windows operating system bundled with Windows media players and search engines to expand his influence into other sectors. With his near monopoly in the industry, this arguably amounted to an unlawful abuse of market dominance. Gates also fought a somewhat dirty war against open source software competitors, in many cases expanding similar product lines in order to preemptively cut out their share in the market. This type of aggressive product salesmanship led to the antitrust lawsuit in 1998, in which Gates reportedly said "I don't recall" while on the stand so many times that even the judge was forced to chuckle. Microsoft only recently settled a copyright infringement lawsuit with the European Union to the tune of about \$400 million. Even now, Microsoft continues to try to undercut its main competition by developing products like "MSN Virtual Earth" to combat Google Earth, or "the Zune" mp3 player to replace Apple's iPod. Gates' image as a ruthless corporate pirate, however, seems destined to vanish as he begins his reign at the head of the biggest philanthropic foundation on the planet.

Bill Gates' recent decision give up his position as chief software architect for Microsoft in order to spend his time working on his foundation has caused speculation as to what this means for Microsoft's future. This is a relevant query from two perspectives: the first pertains to the future of the company as a productive and competitive entity. While Gates will continue to remain the chairman of Microsoft, he claims to be giving up his day-to-day input on company policy. In reality, analysts say he already had, focusing more on public relations and maneuvering than he did on the actual software production. Company executives appear confident in the pending transition and loss of the "face" of Microsoft, though even before Gates announced his departure numerous competitors were beginning to chip away at his company's stronghold.

The second perspective has to do with the effect Gates' departure will have on Microsoft's image. Since for many people Bill Gates represents Microsoft, what will it mean for his name to begin sweeping the front page of every media source discussing philanthropy? There are two interpretations for this as well – either Microsoft will be seen to have lost its generous spirit with the parting of its mascot, or Bill Gates' independent achievements will reflect positively on the company's own public image. Of the two possibilities, the latter seems far more likely. Since Bill Gates will still be sitting as one of Microsoft's chairmen, his name will still remain associated with the company's for an indeterminate amount of

time; his name will simultaneously be appearing in correlation with his Foundation's achievements. Microsoft will likely gain both good publicity and close ties to the world's most powerful charity from this shift in management.

Whether or not Gates' succession does prove to be a boon for Microsoft's public image, the question becomes whether the nature of Microsoft's philanthropy will change. Since the Gates Foundation tends to focus more on health and disease research than technology and education, then it would appear that the two institution's philanthropic efforts do not overlap. This trend may become set in stone as a result of Gates' shift due to fears of a conflict of interest – should Gates and Microsoft desire to run a joint campaign to slow the spread of AIDS through interactive software technologies, they would potentially be unable to do so. Gates could be accused of unlawfully furthering Microsoft's interests by creating a visible bond between the company and the charity. Since intersectoral ventures are becoming more common (i.e. using education to improve health and sanitation, etc.), this obstacle could be seen as very inconvenient. However, should Gates' philanthropic efforts prove to be beneficial to Microsoft's PR efforts, the company might be tempted to reduce its own charity work, using Gates' efforts as compensation.

Bill and Melinda Gates have worked to keep their Foundation at a certain distance from Microsoft; no company stock factors into the Foundation's assets. The Foundation, into which Bill Gates has funneled nearly 50% of his wealth over time, has an endowment of \$29.2 billion. It is the biggest organization of its kind by almost an order of magnitude, boasting an average yearly donation of about one and a quarter billion dollars. These donations are set to double in the coming years due to a \$31 billion contribution from Warren Buffett, the world's second richest man after Bill Gates. Most of this money is and will be given to initiatives and NGOs dedicated to combating the world's three major diseases: AIDS, tuberculosis, and malaria. The simple enormity and breadth of the Foundation's undertaking seems to be the biggest similarity the Gates' Foundation has with his old company, although both have given nominal donations to libraries in the past. The potential of the Foundation to perform its functions effectively is tremendous – as giant companies such as Microsoft are able to produce economies of scale to improve their efficiency, so it is hoped that the sheer magnitude of the Foundation's donations might be able to confront major health issues as never before. However, there is a worry among some NGOs that the autocratic nature of the Foundation might lead to a more personalized system for requesting grants. For example, should the head of a non-profit organization dedicated to AIDS research criticize Bill Gates and his policies, Gates might hold that against him and refuse him funding. In the past, NGO leaders had numerous avenues to seek adequate funding. But since the Gates Foundation has far more resources than any other philanthropic trust, other sources of funding may be disinclined to aid that NGO leader, telling him instead to simply ask the Gates Foundation for the money (which of course he cannot do). The concept of favoritism in philanthropy has until now only made a very minor splash, but the Gates Foundation opens the door for favoritism on a massive scale. And if Gates' past record can be used to predict how his new foundation will be run, it is conceivable that Gates might tighten his grip over the whole health and aid sector of charity work; he could create the first philanthropic monopoly, especially if he maintains his influence within Microsoft. He would be able to broaden his reach through both technology and education, and health and sanitation.

Though this analysis consists of mostly conjecture, as both Microsoft and the Gates Foundation are likely to continue in their moderate and incredible public aid campaigns respectively, their creator has certainly drawn an arguably unprecedented amount of power and influence under his control – one hopes his ideals will remain consistently objective.

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