

# Microsoft's 'good guy' approach frays in UK gaming battle

April 27 2023, by Matt O'brien

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The Microsoft logo is pictured outside the headquarters in Paris, Jan. 8, 2021. British regulators have blocked Microsoft's \$69 billion deal to buy videogame maker Activision Blizzard over worries that it would stifle competition in the cloud gaming market. Credit: AP Photo/Thibault Camus, File

Microsoft's charm offensive with the world's governments is starting to

lose some of its luster as the software giant is confronting its toughest antitrust scrutiny since co-founder Bill Gates was in charge.

[A blow came](#) this week when British regulators said they would block Microsoft's planned \$69-billion takeover of video game maker Activision Blizzard, [threatening to undermine](#) what could be the priciest tech acquisition ever.

Microsoft's policy chief responded by calling it a "bad day for Britain" that could make it an unattractive place to do business and warned Prime Minister Rishi Sunak's government "it needs to look hard" at the role of its antitrust regulator.

"This decision, I have to say, is probably the darkest day in our four decades in Britain," the company's president, Brad Smith, told BBC Radio 4. "It does more than shake our confidence in the future of the opportunity to grow a technology business in Britain than we've ever confronted before."

The sharp tone marked a shift for Microsoft, and Smith in particular, who joined the company in 1993 and helped defend it from antitrust enforcers in the U.S. and Europe who targeted the company's personal computer software empire centered around the Windows operating system.

"Basically, this is Microsoft and Brad Smith throwing their toys out of the pram after they didn't get the decision they wanted after all the lobbying they did," said Max von Thun, director of the Europe office of the Open Markets Institute, a proponent of stronger antitrust enforcement.

After legal battles starting in the late 1990s, Microsoft came close to having to break up its business but ended up agreeing to concessions

instead. It was eclipsed for a time by rivals like Google, Facebook and Amazon, which drew closer scrutiny from both Wall Street and regulators. Now, it's back, both as a powerhouse in sectors such as artificial intelligence and cloud computing and as a target for antitrust enforcement.

"They're struggling to maintain that 'good guy' reputation," von Thun said.

After adopting a confrontational attitude toward regulators at the turn of the century, Microsoft's senior leaders, led by Smith, have spent years crafting a friendlier and collaborative approach, said William Kovacic, former chair of the U.S. Federal Trade Commission.

"That generated a great deal of goodwill for them around the world," Kovacic said. "They're seen as being in a different category than the other well-known information technology giants. They're seen as being more reasonable, thoughtful."

But it's not just Microsoft that has changed. Behind the heightened attention on technology companies is a belief that regulators were too weak over the past two decades in preventing monopolies. Kovacic said the "halo effect" of pitching itself as a good partner with governments only goes so far if the regulator believes a deal could harm competition. Not only that, but some of the dozens of nations with antitrust laws are increasingly talking with each other.

"A number of jurisdictions are coming to realize that their effectiveness increases if they operate as a coalition," Kovacic said. "They share thoughts about strategy. They share thoughts about timing."



Microsoft President Brad Smith addresses a media conference regarding Microsoft's acquisition of Activision Blizzard and the future of gaming in Brussels, Tuesday, Feb. 21, 2023. Microsoft's charm offensive with the world's governments is starting to lose some of its charm as the software giant is confronting some of its toughest antitrust scrutiny since co-founder Bill Gates was in charge. Credit: AP Photo/Virginia Mayo, File

In his comments to the BBC, Smith said the "English Channel has never seemed wider" as he compared the United Kingdom unfavorably with regulators for the 27-nation European Union, who are due to make a decision on the Activision deal in May.

Smith said that "people are shocked, people are disappointed" by the U.K. decision. Microsoft and Activision have vowed to appeal.

The company may end up with a more favorable ruling in Brussels, but Microsoft still has to contend with the FTC, which has challenged the deal in the U.S. and is taking the company to trial in August.

"We're not alone," Sarah Cardell, chief executive of Britain's Competition and Markets Authority, told BBC 4's Today program of her agency's decision and the pending FTC lawsuit. "There is a lot of alignment there."

Cardell defended the decision, saying the U.K. is "absolutely open for business" and the regulator wants "to create an environment where a whole host of different companies can compete effectively, can grow and innovate."

The regulator's concern was over cloud gaming, or games streamed over the internet, which represents a tiny fraction of the industry today but where Microsoft, owner of the Xbox game system, already has the most powerful platform and would become more so with the Activision takeover, making it harder for other platforms to compete, Cardell said.

Macquarie Group analyst Sarah Hindlian-Bowler said it will "be challenging, but possible" for Microsoft to complete its Activision takeover without the U.K.'s support. She also said it made sense for Smith to call out the CMA, a relatively new body formed several years before Britain's exit from the EU.

"Microsoft is dancing an incredibly delicate ballet," Hindlian-Bowler said. "I think the aggressive comments from Microsoft really are intended to get British lawmakers and the British people to be really aware that this body, that I think is attempting to do good, may actually do more to set the U.K. back."

Microsoft has long pitched itself as a government partner, working with

local governments [from Wisconsin](#) to Poland to build the data centers that power its cloud computing business and touting its ability to defend cybersecurity, including in places like Ukraine. It's proposed regulations to safeguard artificial intelligence and data privacy, though sometimes at the expense of more data-hungry rivals like Google and Facebook parent Meta.

Microsoft also has faced other scrutiny, including complaints to European regulators that it is leveraging its position to lock customers into its Azure computing platform or bundling its Teams communications software with the rest of its Office suite of workplace products. And while Microsoft has endorsed broad AI safeguards, the rapid commercialization of ChatGPT-like products could bring about conflicts for the company amid a growing push to rein in the technology.

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Citation: Microsoft's 'good guy' approach frays in UK gaming battle (2023, April 27) retrieved 27 April 2024 from

<https://techxplore.com/news/2023-04-microsoft-good-guy-approach-frays.html>

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