



Internationalisation Strategies of Companies in Service Industries:  
A Study of National Telecommunication Operators from Small and  
Open Economies (SMOPECs)

by

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## **Abstract**

This thesis discusses internationalisation strategies of companies in a globalising service industry, the telecommunications industry. Differences in the internationalisation processes between manufacturing and service companies, and companies in network industries in particular, are analysed. The telecommunication industry's special characteristics are discussed. Special challenges faced by companies in small and open economies (SMOPECs) in their internationalisation are also covered. Broad research questions, and a conceptual framework and specific research propositions are presented. The methodology, a multi-case study, and research procedure are introduced, and the research findings are reported, analysed and discussed.

During the last decade there has been continuous debate on how well the traditional internationalisation (process) theories are able to explain the internationalisation of service companies. In addition, several researchers have argued that the facts that service sectors are heterogeneous and have different characteristics causes remarkable variations in the internationalisation processes of different service sectors.

The conceptual framework developed in this study to analyse the internationalisation strategies of the case companies, national telecommunication companies (telcos) from SMOPECs, is based on the earlier research in the areas of international business and strategic management. The framework consists of two main parts, internationalisation strategies and factors influencing these strategies. The four internationalisation strategies included in the framework are product strategy, operation strategy, market strategy and organisation strategy. The factors influencing internationalisation strategies have been divided into five main groups: global factors, industry specific factors, home country specific factors, company specific factors and host country specific factors.

This cross-border multi-case study includes four case companies: Singapore Telecommunications Limited (SingTel) from Singapore, Sonera Oyj (Sonera) from Finland, Telia AB (publ) (Telia) from Sweden, and Telstra Corporation Limited (Telstra) from Australia.

The key findings of the study demonstrate that although in some areas the case study companies followed processes suggested by traditional internationalisation (process) theories there were also significant deviations. These deviations are most obvious when analysing market strategies. The findings present several factors behind these deviations. The findings mostly support earlier research on service industries, although there are distinctive characteristics which apply only to the telecommunications industry, or more generally, to network industries.

The findings also demonstrate that the special challenges that companies from SMOPECs face in their internationalisation, influence their internationalisation strategies. Interestingly, in addition to these special challenges, the findings suggest that there are areas where these types of companies may have a competitive advantage in relation to their internationalisation.

The conceptual framework developed in this study helps to understand the internationalisation process in the telco industry. The framework integrates findings from both international business and strategic management research, recognising the benefits of more generalisable internationalisation models originating from economic and marketing theories, but taking into account environmental circumstances and the influence of managerial actions, emphasised more in strategic management theories. That is, more contingency approach is taken than in some traditional internationalisation models. The conceptual framework and the findings contribute to the existing research on the internationalisation of services particularly, and to international business and strategic management research more generally.

## **Thesis Declaration**

This work contains no material which has been accepted for the award of any other degree or diploma in any university or other tertiary institution to Riku Laanti and, to the best of my knowledge and belief, contains no material previously published or written by another person, except where due reference has been made in the text.

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Riku Laanti



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# **1 Introduction**

## **1.1 Background to the Research**

The purpose of this study is to analyse the applicability of traditional internationalisation theories, especially internationalisation process theories, and the latest strategic theories on globalisation to a service network industry, the telecommunications industry, which has traditionally been highly regulated by governments.

Internationalisation and globalisation have been topical issues in the international business and strategic management literature for the last few decades. However, in spite of the strong traditions in research on the internationalisation process of the firm and the recent revival of this interest, theoretical development of a comprehensive theory is still incomplete (Liesch et al, 2002). This is especially evident in the internationalisation of services. Many researchers have argued that existing theories on internationalisation are still largely based on the experience of manufacturing companies (Erramilli and Rao, 1993, Kundu and Contractor, 1999, Bryson, 2001, Javalgi et al., 2003, Bouquet et al., 2004).

During the last couple of decades an increasing number of studies on the internationalisation of services have emerged, but there are still gaps in the literature (Erramilli and Rao, 1993, Knight, 1999, Samiee, 1999, Aharoni and Nachum, 2000, Bryson, 2001, Contractor et al., 2003, Blomstermo et al., 2006). In particular, it has been argued that theory development in the internationalisation of service companies lags behind their relative importance (Clark and Rajaratnam, 1999, Contractor et al., 2003). More research is needed, especially in some service industry sectors which have recently experienced an increase in their internationalisation activities.

Globalisation, moreover, has changed the environment in which companies internationalise. This has challenged some of the traditional theories and models on internationalisation more generally (Luostarinen, 1994, Dunning, 1995, Luostarinen and

Gabrielsson, 2004). Although globalisation influences most companies, the intensity of globalisation drivers varies across industries, thus requiring more sector specific studies (Lovelock and Yip, 1996, Westhead et al., 2001). That is, there is a need to indentify industry specific drivers and factors which affect globalisation strategies in different industries. To understand all these changes and their influences on business strategies, traditional internationalisation models need to be re-evaluated and extended.

Although international business and strategic management disciplines are closely related and highly interdependent, often these two disciplines have been seen as separate areas. However, as a result of developments in globalisation these two disciplines are becoming increasingly integrated. It will be argued throughout this study that recent strategic management research can complement traditional international business research in order to increase the level of understanding of the internationalisation process of a firm.

## **1.2 Research Problem**

The first phase of a research is to define a research problem. In this thesis the problem arises from the combination of challenges that companies from SMOPECs face in their internationalisation due to limited resources and the capital-intensity of the telecommunications sector. The key problem addressed in this thesis focuses on: *How have national telecommunication companies (telcos) from SMOPECs internationalised with their limited resources in an industry where capital investment needs are high and technological development rapid?*

Telecom operator services used to be a highly regulated industry sector based almost entirely on national monopolies. In the telecommunication industry, particularly in the telecom operator business, de-regulation started in the mid 1980s accelerating in the 1990's. As a result of deregulation developments, companies which had operated as national monopolies faced competition in their domestic markets and started to look for new growth areas, mostly internationally. Indeed, it was not until the 1990s that most telcos started their

active internationalisation phase including significant foreign investments (Sarkar et al., 1999). Overall, the telecommunications industry, especially mobile and internet communications, has been perhaps the most dynamic service industry of the 1990s (Bohlin et al., 2001, Shy, 2002).

In the telecommunications services sector, however, new market entries require large investments and are risky. This is especially so for telcos with limited financial resources and political leverage (Kramer and Ní Shuilleabháin, 1997). Thus, these constraints are emphasised for telcos from SMOPECs (Steinbock, 2003). For these companies it was relatively more challenging to invest internationally compared to ex-monopoly telcos from the world's largest and economically most powerful countries. Companies such as American Telephone and Telegraph (AT&T), British Telecom (BT), Cable & Wireless (C&W), Deutsche Telekom (DT), and Nippon Telephone and Telegraph (NTT) from these countries were identified as the largest players in the global telecommunications sector (Heng and Low, 1990, Shy, 2002). In addition, the anticipated convergence of the telecommunications sector with the IT and media sectors brought further large competitors into the field (Heng and Low, 1990). Some analysts and observers in the industry argued that for telcos from small countries it would be difficult to even survive as independent companies in this emerging competitive environment (Reuters, 1995).

To compete successfully against these large companies, companies from SMOPECs needed to develop alternative strategies for their internationalisation. Traditional internationalisation models based on the internationalisation of manufacturing companies did not provide adequate guidance on how companies in a capital intensive and deregulated network industry should internationalise.

### **1.3 Justification for the Research**

Research on motives for companies to internationalise and on the internationalisation process of a company started to evolve in the period 1960 – 1980. However, during the last few years the internationalisation process of companies has again become a current issue in international business research (Eriksson et al., 2000).

As mentioned earlier, the debate on the internationalisation process models has been emphasised in research on services, as several researchers have argued that traditional theories cannot explain the internationalisation of most service sectors. This is further emphasised due to the heterogeneous nature of services. That is, different service sectors seem to follow very different internationalisation patterns (Bouquet et al., 2004). Thus, to understand better the internationalisation strategies and whether they are context specific, research should be more focused on specific industries or industry categories (Clark et al., 1996, Westhead et al., 2001, Fjeldstad et al., 2004). Addressing this need, some of the recent research on services internationalisation has covered individual service sectors and categories. For instance, research by Roberts (1999) is illustrative of business services, whereas others have focused on hotel services (Dunning and Kundu, 1995, Alexander and Lockwood, 1996, Kundu and Contractor, 1999, Contractor and Kundu, 2000), retail services (Akehurst and Alexander, 1995, Quinn, 1999, Rugman and Girod, 2003, Leknes and Carr, 2004), and on financial services (Cardone-Riportella et al., 2003). Some of these researchers found several context specific idiosyncrasies in the internationalisation strategies of the individual service sectors studied (Akehurst and Alexander, 1995), but also some similarities with the findings of earlier research into the internationalisation processes of manufacturing companies. For example, Lovelock and Yip (1996) argued that models based on manufacturing industries were also relevant to services businesses, even though they are different in a number of important respects. Despite this, it is still unclear whether

internationalisation theories developed for manufacturing companies also apply to service companies (Bouquet et al., 2004).

As Lovelock and Yip (1996) and Fjeldstad et al. (2004) argued, it would be more useful for researchers to first comprehend the different factors influencing the processes of how services are delivered in international markets in one service industry, or one set of service industries, before attempting to generalise about internationalisation across all services. For example, Bonardi (2004) argued that internationalisation strategies of former monopolies in deregulated industries should be a research topic of its own, due to several specific factors such as the role of government and political strategies.

As already mentioned, the telecommunication sector internationalised actively in the late 1990s and early in the 21<sup>st</sup> century. Despite this rapid pace in internationalisation and international investments of telcos, there is still very little theory development in this area (Sarkar et al., 1999, Fjeldstad et al., 2004). While psychic distance is a key concept of internationalisation literature, in the telco industry there are clearly other important factors which have influenced market strategies (Sarkar et al., 1999, Sabat, 2002, Stienstra et al., 2004). There is not yet explicit research results describing any clear pattern in target market selection or operation strategies by telcos in general, and especially on how telcos from smaller countries have faced the challenges of internationalisation (Whalley, 2004).

The few valuable studies (Sarkar et al., 1999, Stienstra et al., 2004) on the internationalisation of telcos that have been undertaken have focused mostly on telcos from large countries, and are mostly based on secondary data and/or missing recent significant developments in the industry. On the other hand, many traditional international business studies have originated from SMOPECs but they have not focused on the internationalisation of telcos and other network industries (or have even omitted telcos, or services more generally). As the importance of their largest MNEs is often relatively more important for

SMOPECs (Benito et al., 2002), and as national telcos predominantly are the largest MNEs in their respective countries, this research area is very relevant.

Sarkar et al. (1999) recommended that more studies on telcos should be undertaken which would pay attention to the specific factors of this industry with regards to internationalisation, thus contributing to the general theory on internationalisation. For example, questions still remain on which context specific issues mostly affect the internationalisation of telcos (from SMOPECs). This leads to the definition of the broad research questions at this stage to guide the research process further (these broad research questions are developed further during Chapters 2 to 7, and discussed more in depth in Chapter 8).

- 1. Why and how have national telcos from SMOPECs internationalised?*
- 2. Have these strategies varied from the internationalisation strategies suggested by traditional internationalisation theories? If so, how?*
- 3. What have been the factors that have influenced these strategies?*

## **1.4 Research Objectives**

This research combines the disciplines of international business and strategic management into one interdisciplinary study, addressing demands by researchers for more interdisciplinary approaches to international business research (Buckley, 2002, Jones and Coviello, 2005).

The study aims to make a contribution to the development of a more holistic and comprehensive internationalisation theory that would help explain the internationalisation of telcos, and more generally provide more understanding of the internationalisation of network industries. The conceptual framework developed for this purpose will include elements from researchers who have worked on the development of similar frameworks such as Dunning's (1981, , 1988) work on eclectic paradigm, and Luostarinen's (1979, Luostarinen, 1994) POM-model, and will also extend this earlier work. It will address the call by several researchers (such as Clark et al., 1996, Lovelock and Yip, 1996, Westhead et al., 2001) to

extend the existing theories by studying industries and sectors that have not been the focus of earlier research, or which have recently faced significant changes in their business environment.

More specifically, Li and Whalley (2002) stated that new research is needed and new frameworks developed to understand better the strategies of companies in the rapidly changing telecommunications industry and other industries with similar business logic. Thus, the conceptual framework developed in this study would provide a tool to analyse internationalisation strategies of telcos from SMOPECs, and the factors influencing these strategies. Also, the underlying aim is that the framework should offer opportunities to analyse and explain the internationalisation of companies more generally, especially in network industries.

The internationalisation patterns of SMOPEC MNEs may also serve as a model for MNEs from other, less developed small countries. Due to SMOPECs relatively early participation in the internationalisation developments valuable longitudinal data of MNEs from these countries is available for analysis.

In addition to contributing to existing theories, the results of this research should also be of significance to managers and policy makers in the telecommunications industry, and in other network industries, especially in SMOPECs.

## **1.5 Methodology**

This is a multi-case study of four national telcos from SMOPECs, namely SingTel from Singapore, Sonera from Finland, Telia from Sweden, and Telstra from Australia. As the objective is to extend the existing internationalisation theories and models by developing a new perspective, this research strategy is appropriate (Sekaran, 1992, Yin, 1994, Marschan-Piekkari and Welch, 2004). That is, as the study investigates how national telcos have internationalised, and whether or not the patterns of internationalisation have varied from the



ones suggested by traditional theories. If they have, there is a need to understand why this has occurred, and an explanatory/illustrative multi-case study as a methodology is well justified in this context.

Moreover, a multi-case study strengthens the generalisability and rigour of a qualitative study (Miles and Huberman, 1994, Yin, 2003), although it needs to be emphasised that any generalisations are analytic, not statistical (Yin, 2003, Pauwels and Matthyssens, 2004, Siggelkow, 2007). In addition, this study of telcos from four different countries addresses demands for more comparative cross-country studies of service MNEs (Knight, 1999, Samiee, 1999, Bryson, 2001).

## ***1.6 Delimitations of Scope and Key Assumptions***

Although it is hoped that the conceptual framework to be developed will offer a model to analyse further the internationalisation of companies generally, and in network industries and from SMOPECs particularly, no claims of generalisations can be made outside of the scope of this study. The assumptions and findings will be limited to the internationalisation of national telcos from SMOPECs. This type of focus is necessary to be able to demonstrate the influences of the industry and the characteristics of the home country in the internationalisation process of a company.

## ***1.7 Outline of the Thesis***

The thesis is organised as follows. An extensive multidisciplinary literature review is covered in Chapters 2 to 7. Chapter 2 will provide a general view on the early internationalisation theories, and in Chapter 3 globalisation phenomena and its effect on internationalisation processes will be discussed. In Chapter 4 the importance of a strategic management approach to the internationalisation of a company will be examined. In Chapter 5 the internationalisation of services industries will be reviewed. In the latter part of this chapter the focus will be on the internationalisation of network industries. Chapter 6 will elaborate on the internationalisation of the telecommunications industry, including the

historical development of the industry, and industry specific factors such as deregulation/regulation and technological developments will be illustrated. Their influence on the internationalisation process of telecommunication companies will be analysed based on the existing literature. In Chapter 7 the special challenges of globalisation on companies from SMOPECs will be discussed. In Chapter 8, based on the theories and discussions presented in the earlier chapters, the broad research questions will be developed further, and a conceptual framework and specific research propositions established. In Chapter 9, the methodology of the research will be introduced and justified. Empirical findings of each case study will be presented in Chapter 10. In Chapter 11 these findings will be analysed and discussed using cross-case analysis. Finally, in Chapter 12 the main summary, theoretical conclusions, and recommendations for managers, policy makers and researchers will be presented.

## **2 Review of the Literature on Internationalisation Theories**

### **2.1 Introduction**

In this chapter the literature on the internationalisation of a firm is reviewed. First, a brief overview of the history of international business will be discussed before investigating the two main streams of the literature on the internationalisation of the firm: economics-based theories and process theories. The economics-based theories are introduced, and their role and position within the international business literature discussed. The internationalisation process theories, a focus area of this study, are discussed, and their importance and relevance to the research on internationalisation are evaluated. Criticisms of the traditional internationalisation process models are discussed and analysed, with a specific emphasis placed on psychic distance, a central concept of these models. In addition, this chapter discusses the network approach, an extension of the process models.

It will be argued that, in spite of differences, these two main groups of internationalisation theories are complementary rather than contrary. It is demonstrated that the economics-based theories focus on the existence of modern MNEs and explain why companies internationalise, whereas the internationalisation process theories focus on the dynamic process and patterns of internationalisation. It will also be argued that these theories have maintained their importance in explaining internationalisation phenomena. However, due to several recent changes in the international business environment and to some issues not emphasised by these early internationalisation models, they can be extended further to understand better all aspects of internationalisation processes in different contexts.

### **2.2 History of Internationalisation of Business**

International trade is not a new phenomenon. Bartlett and Ghoshal (1992) pointed out that many old civilizations, such as the Greeks and Egyptians, practised international trade. In the 17<sup>th</sup> and 18<sup>th</sup> centuries international trade increased in scale and scope mostly through the

efforts of the British and Dutch trading companies, and by the 19<sup>th</sup> century, many industrialised European countries had started to invest in developing continents of the world (Bartlett and Ghoshal, 1992, Landes, 1998). However, this international trade was mostly based on international export and import operations only, and even in cases where direct investments were made, these operations did not include the active management of the investments (Bartlett and Ghoshal, 1992). Not until the last century did the modern MNE enter the picture (Bartlett and Ghoshal, 1992).

Most modern theories of the internationalisation of the firm were developed after World War II, largely between 1960 and 1990. This has been a natural consequence of the rapid rise in foreign direct investments (FDI) in the 1950s and 1960s (Dunning, 2006). Since then the internationalisation of the firm has been a central theme within international business research (Buckley and Casson, 1993).

Most of the theories on the internationalisation of the firm have their background in the theories of the growth of the firm (Penrose, 1959), but have been extended to include operations across national borders. More generally, it can be argued that internationalisation is based on the aim of a company to grow (Buckley and Casson, 1993).

Traditionally, this research on companies' internationalisation has been covered in two main research streams: '*economic*' and '*process*' streams of internationalisation (Benito and Welch, 1994, Liesch et al., 2002, Cardone-Riportella et al., 2003). In spite of different perspectives, these two streams of research have similar elements and are in many ways complementary (Sarkar et al., 1999, Dunning, 2000a).

### **2.3 Economic Theories of Internationalisation**

Internationalisation theories with their background in economics are often also referred to as FDI-theories and have focused on the reasons and motivations for MNEs to exist, giving rise to such theories as: *the product cycle theory* (Vernon, 1966); *transaction*

*cost theory* (Williamson, 1975, , 1979, , 1985, Anderson and Gatignon, 1986); *internalisation theory* (Buckley and Casson, 1976, Rugman, 1981, , 1982); and *the eclectic theory* (Dunning, 1971, , 1981, , 1988).

One of the first theories on FDI, Vernon's (1966) *product cycle theory*, emphasised the strong position of the US economy in the post-war business environment and based its assumptions on the differences in the wages and GDP per capita levels between the US and the rest of the world: the purchasing power of US consumers was more than double that of consumers in Europe or in any other market. This theory was based on the idea that new innovations were first developed in large sophisticated markets, namely the US, and not until these markets started to mature did companies start to enter other international markets. The different timing of the product cycle between the US market, other developed markets, and less developed countries, opened opportunities for the US MNEs to internationalise. Access to low cost of production was also a key motivating factor for internationalising companies at a later phase of Vernon's dynamic model. This theory has been one of the pioneering models in explaining the existence of a modern MNE, and the early movements of FDI, although its importance has decreased as it has been subject to criticism for focusing solely on the internationalisation of US-based MNEs. Also, the business environment has changed since the theory was developed as other countries have followed the lead of the US economy. However, the product cycle theory has contributed significantly to the development of subsequent theories on internationalisation.

Other pioneering researchers on FDI were Hymer (1976) and Kindleberger (1969), who argued that market imperfections and scale economies were some of the main reasons for the existence of MNEs, offering a different view from Vernon's emphasis on innovation as the key driver<sup>1</sup>. Both transaction theory (Williamson, 1979, Williamson, 1985, Anderson and Gatignon, 1986, Hennart, 1988) and internalisation theory (Buckley and Casson, 1976,

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<sup>1</sup> Hymer's PhD thesis was completed in 1960, but was not published until 1976.

Rugman, 1981, 1982) developed this aspect further. These theories were based on market imperfections; that is, as long as perfect competition does not exist, transactions are more efficiently organized internally within MNEs than through external markets. During the last decades, the internalisation theory has been one of the dominant theories on MNE and FDI. However, many researchers have argued that the theory focus on purely cost-related issues and control, and omitted several other relevant issues to companies' internationalisation. Also, the focus of the theory was on FDI decisions and there was less emphasis on market strategies.

Dunning's seminal work, the eclectic theory or eclectic paradigm (Dunning, 1981, , 1988), targeted some of the criticism mentioned above by presenting a more comprehensive view on internationalisation in its OLI-model. First, *ownership* advantages suggested that companies with relatively high-competitive advantages compared to other companies in the target market will increase their international investments in that market. It could be argued that this factor incorporated some of Vernon's findings into the model. Second, the model included the arguments of the internalisation theory in its *internalisation* advantages. Third, location advantages argued that the more important are location specific advantages in a certain target market, the more likely MNEs will commit FDIs in these markets. The central notion was that each of these factors were equally important to the internationalisation of a company and supported each other (Dunning, 1998).

In spite of their dominant position in international business literature since their development, the economic models also had a number of shortcomings. First, all of these economic theories attempted to explain the motivations and reasons behind the existence of MNEs, rather than the actual process of internationalisation and dynamic changes over time (Benito and Welch, 1994) with, perhaps, Vernon's product cycle theory as an exception. This left room for further research to understand better the dynamic process of internationalisation. Second, the emphasis was on treating firms as rational economic actors, omitting many other

aspects such as the behaviour of managers (Benito and Welch, 1994). Third, they were overly focused on FDI at the expense of other operation modes such as exporting and alliances (Dunning, 1995, 2000a). Fourth, costs were emphasised over value-adding functions that companies have and which are growing in importance in some of the more knowledge intensive industries (Dunning, 1995, 2000a). Finally, these models did not fully include a risk factor, as it could be argued that although, rationally, internalisation would be the optimal solution, the risks involved in investing committed operation modes may prevent companies, especially the smaller ones, from internalising operations. The last three of the above mentioned issues may all have contributed to the fact that the relevance of models, such as the product cycle theory and the internalisation theory, were called into question by several researchers into the internationalisation of small and medium sized companies in knowledge-based industries (McDougall et al., 1994, Forsgren, 2002, Moen and Servais, 2002).

Dunning addressed some of these issues in his more recent work on the emergence of alliances as an operation mode (Dunning, 1995), and the increasing importance of knowledge-related activities. He also recognised that rather than being a theory that tries to predict all patterns of internationalisation, the OLI-model is more of an ‘envelope’ to help to analyse these patterns in different contexts (Dunning, 2000a).

## **2.4 Internationalisation Process Theories**

### **2.4.1 Internationalisation Stages Models**

In contrast to the economic theories and their focus on the motivations for companies to internationalise, internationalisation process theories were developed to explain *how* companies internationalise. This research is best illustrated by the internationalisation stages models developed in Nordic countries, including the Uppsala Model (Johanson and Wiedersheim-Paul, 1975, Johanson and Vahlne, 1977, 1990) and Luostarinen’s (1979, , 1994) research in Finland; and the US-based Innovation Related models and theories (Bilkey and Tesar, 1977, Czinkota and Johnston, 1981, Czinkota, 1982, Cavusgil, 1984). All of these

models have emphasised the gradual and incremental nature of a company's internationalisation.

These theories, the Nordic models in particular, have their theoretical background in Cyert and March's (1963) behavioural theory and Penrose's (1959) theory of the growth of a company, and in some of the pioneering research on the internationalisation of firms (Dunning, 1958, Aharoni, 1966, Hymer, 1976). Due to their emphasis on behavioural issues, such as the importance of experience on the internationalisation process, they are often referred to as behavioural theories on internationalisation.

The US-based Innovation related models (Bilkey and Tesar, 1977, Czinkota and Johnston, 1981, Czinkota, 1982, Cavusgil, 1984) treated internationalisation as an innovation, and defined different stages in a firm's internationalisation process. For example, an innovation leads from one stage to another: from non-export stage to an unsolicited order to experimental exports to psychologically similar countries, and finally to exports to countries further away (Bilkey and Tesar, 1977). The number of stages and the names of steps varied slightly among these different models, but in essence they all based their ideas on the same basic assumption of internationalisation as an innovation, increasing international experience of managers, and gradually increasing stages of internationalisation. As opposed to the FDI theories, these theories focused on exporting development to different target markets, not so much on more committed operation modes, such as FDI. Also, they were mostly developed based on studies on SMEs from one or two US states, which may limit their relevance to larger companies and to companies from other countries.

Closely related to the innovation models, and perhaps the most well-known of all these models, the Uppsala model emphasised the importance of accumulative experiential market specific knowledge within a firm and an incremental internationalisation process (Johanson and Wiedersheim-Paul, 1975, Johanson and Vahlne, 1977, , 1990). The key factors in the model are market knowledge and market commitment (Johanson and Vahlne, 1977),



and interplay between them. Based on the model, the uncertainty in respect of foreign markets led companies to reduce risks and thus start internationalisation by first entering into neighbouring countries, and then, step-by-step, as their organisation's experience accumulated, these firms gradually entered more distant foreign countries. Advocates of this model also claimed that in addition to market strategies this same incremental process applied with entry mode decisions; that is, committing resources to international markets. For example, over time when their international experience accumulates, firms progress from using agents, to own direct exports, to sales subsidiaries, and finally to foreign production operations. The first studies on the Uppsala model were based on a few case studies of Swedish firms. However, the influence of the model has extended much further and it has been one of the seminal models in international business research since its development. This model, often also called the 'establishment chain', is still frequently referred to as a basic model and framework to study the dynamics of the internationalisation process of the firm (see, for example, Hadjikhani and Johanson, 2002, Van den Bulke, 2004).

Luostarinen's (1979, , 1994) research on international product, operation and market strategies of Finnish companies has been the basis of the Helsinki model of internationalisation, the other stream of Nordic internationalisation research. Like the Uppsala model, his model also emphasised the importance of international experience and organisational learning from a firm's own activities as a source of that experience. However, instead of being limited to market specific knowledge, Luostarinen made a distinction between target market and firm patterns of internationalisation. He claimed that more important than target market knowledge is the knowledge of a firm's internationalisation process itself. He argued that this experience accumulates, and thus the later phases of a firm's internationalisation can be more rapid than and not as deterministic as the first market entries.

All of the process models emphasised the role of *psychic distance* in the internationalisation process of a firm. The concept of psychic distance consisted of cultural and physical distance (Johanson and Wiedersheim-Paul, 1975, Johanson and Vahlne, 1977). In addition, Luostarinen (1979) introduced the concept of business distance, which included economic distance as a variable, and quite often economic factors are included in the definition of psychic distance. This is discussed further in section 2.4.3

To add to these first internationalisation process theories Welch and Luostarinen (Welch and Luostarinen, 1988, Luostarinen and Welch, 1990, , 1993) introduced inward and co-operation modes in addition to traditional outward modes of internationalisation in their more holistic model of internationalisation. They argued that firms in many cases are able to gain valuable international experience from their inward operations prior to entering international markets themselves with outward operations, thus making it possible to internationalise more rapidly than the traditional models would suggest. In their model, co-operation modes often followed outward operations. This more multifaceted view was supported by other studies, for example by Fletcher (2001) in his study of internationalising Australian firms, and Korhonen et al. (1996) in their study of internationalising SMEs.

Although these process models have small differences, all of them place significant emphasis on the role of organisational learning to develop international experience needed in the internationalisation process. Based on the notion of incremental learning, Luostarinen (1979, , 1994) also introduced the term ‘lateral rigidity’ to define the path dependency of a firm in its decision making. This related to the normally slow organisational change process; that is, when one pattern of internationalisation has been chosen, it was a difficult and slow process to make significant changes to the pattern.

#### **2.4.2 Criticism of the Stages Models**

In spite of their importance in the international business research, the internationalisation stages models have also attracted considerable criticism. In their (early)

evaluation of internationalisation stages models Reid (1983), Strandskov (1986), and Turnbull (1987) found them to be too deterministic in trying to predict the internationalisation process more accurately than would be possible in a changing business environment. Also, Bell (1995) claimed that the process models were too linear in trying to explain a complex phenomena. This 'context specificity' was also supported by Andersen's (1993), and Andersen and Buvik (2002).

It should be noted, however, that in spite of the criticism they have received of being approaches that are too deterministic, researchers of the internationalisation process models were the first to observe that internationalisation patterns are not universal, although this issue has received less notice. For example, Cavusgil and Nevin (1981), Cavusgil (1984) and Cavusgil and Naor (1987), and later Cavusgil and Zou (1993, , 1994) found irregularities in stages of development of companies' export strategies to distant markets based on different firm, product, industry or market specific characteristics; and Luostarinen and Welch (1990) and Luostarinen (1994) found that companies leaped over stages and that the pace of the process had accelerated over time, especially in some high growth industries.

An example of product related irregularities is Barkema's and Vermeulen's (1998) findings that both product diversity and geographical diversity influenced the international operation mode choices of firms. In addition to firm and industry specific factors, government decisions may also cause the internationalisation process to vary from the general pattern (Welch and Benito, 1996). Overall, the role of internal and external factors in a firm's internationalisation process had increased (Benito and Welch, 1994).

In contrast to the incremental progress of internationalisation, as suggested by the early process models, the process can even be reversal, including de-internationalisation phases, as firms may reduce their international commitments when they gain more international experience. That is, learning from failures will strengthen the experience and understanding of international markets, which in turn may result in reversals in the

internationalisation process (Welch and Luostarinen, 1993, Benito and Welch, 1994). Partial de-internationalisation may also be a result of the removal of duplicate operations arising from mergers and acquisitions (Welch and Benito, 1996). While these issues have been recognised, and while the internationalisation process theories have maintained their important role in international business research, there is still relatively little research that has addressed these issues (Welch and Benito, 1996).

In addition to the above findings (of more accelerated or reversal processes), the operation modes analysed are thought to be more complex than the early theories predicted. There are now more ways of doing business internationally than was the case when the first process theories were developed (Buckley and Casson, 1993). For example, Benito and Welch (1994) argued that both 'economic' and 'process' approaches are too static in their description, as they did not include different combinations of international operation modes. This also links well to Dunning's (1995) arguments mentioned earlier.

Although the process models addressed the behavioural aspects of internationalisation decision making processes, they tended to focus almost solely on organisational learning and experience. However, people change organisations and transfer their knowledge, and this instability was not included in traditional process models (Forsgren, 2002). Also, there is evidence of psychological pressure for managers not to reverse their internationalisation processes, a finding that supports linear processes, and may change if a firm's top management changes (Welch and Benito, 1996). Also, the role of individuals may be very important in transferring international experience within a firm (Welch and Benito, 1996), which in turn can contribute to stronger firm patterns of internationalisation, and a more rapid process. Although Cavusgil, for example, had mentioned the role of individual managers in his studies discussed earlier, these issues have attracted surprisingly little attention in the analysis of the process models.

Other contemporary areas that have challenged the traditional internationalisation process theories include:

- General globalisation developments (Dunning, 1998);
- The increasing role of international networks and relationships among firms and alliances (Johanson and Mattsson, 1988, Dunning, 1995);
- The emergence of born global companies (Knight and Cavusgil, 1996, Madsen and Servais, 1997);
- The rapid internationalisation of services (Erramilli, 1990, Aharoni, 1996, Blomstermo et al., 2006);
- The strategic motivations to enter individual markets (Dunning, 2000a, Liesch et al., 2002); and,
- Investment risks (Brouthers and Brouthers, 2001).

Some born global researchers have even argued that the traditional models have lost most of their relevance (Oviatt and McDougall, 1997). For example, companies may internationalise rapidly through ‘mimetic’ behaviour and having strategic motivations to enter certain markets to improve one’s market position, thus using committed operation modes already at a very early phase of the process, learning from network partners and resulting in ‘following the herd’ phenomena (Forsgren, 2002). All this may cause internationalisation to be much more multifaceted than originally suggested by traditional process models (Forsgren, 2002).

In summary, most researchers seem to argue that there are deviations from the mainstream pattern of the internationalisation process models. However, no consensus exists on the degree of these deviations as the findings have been diverse. Some studies have found that the models are applicable in general (Luostarinen and Welch, 1990, Luostarinen, 1994, Gankema et al., 2000); some that there are several new sectors in which internationalisation development deviates from these models (Andersen, 1993, Kirpalani and Luostarinen, 1999, Crick and Jones, 2000, Forsgren, 2002, Moen and Servais, 2002, Luostarinen and

Gabrielsson, 2004); and some have found that the traditional models have lost most of their relevance (Oviatt and McDougall, 1997).

Johanson and Vahlne (2006), in their response to the criticism of their theory, argued that rather than trying to develop originally a predictive model, the establishment chain was describing an empirical phenomenon, and the model was more on learning and commitment building in general. Their intention was not to define one generalisable pattern of internationalisation. However, they still argued that some patterns are more probable than others (defending the validity of the model). It seems that the original Uppsala model has been developed by other researchers to be more deterministic than the original authors ever meant it to be. Today the process models still seem to have an important role in contributing to the understanding of internationalisation (Luostarinen, 1994, Prasad, 1999, Tihanyi et al., 2005), although they may not fulfil the purest definition of a general theory in being able to predict the internationalisation processes of most companies (Luostarinen, 1994, Prasad, 1999, Johanson and Vahlne, 2006).

### **2.4.3 The Concept of Psychic Distance**

The concept of *psychic distance* mentioned earlier is one of the key concepts of internationalisation process theories, and has also been the subject of considerable debate by researchers. This concept has a central role in the internationalisation process models, as it is the major factor creating uncertainty in international operations. However, in spite of evidence of the decelerating effect of psychic distance on internationalisation processes, several studies have also reported psychic distance paradox; that is, a situation in which psychic distance correlates with more committed international operation modes or more rapid market strategies. There are also arguments that the whole concept of psychic distance may be past its 'due date' because of the impact and pace of globalisation (Stottinger and Schlegelmilch, 1998). In this section, some contradictory findings on the role of psychic

distance will be discussed, linking them with some of the issues and factors covered in the previous section.

Kogut and Singh (1988) and Dow (2000) argued that the importance of psychic distance decreases after the first market selection, although it remains an important factor; and Chang and Rosenzweig (2001) emphasised the importance of learning and its influence on the choice of entry modes. They argued that traditional internationalisation theories based on psychic distance, and also theories based on transaction cost, are valid at the early phases of the internationalisation process, but over time other factors become more important due to increased international experience. All of these results support Luostarinen's findings on the firm pattern of internationalisation discussed earlier. Cho and Padmanabhan (2005) went even further in their argument, as they found positive correlation between cultural distance and more committed international ownership modes of Japanese manufacturing companies. They argued that 'decision-specific experience', that is, knowledge on specific operation modes, was the most important moderating factor and even more important than general international business experience and target market experience. However, as this is a study from one particular country with its own specific characteristics, it could be argued that these country specific factors have overridden other factors in influencing operation modes.

Dow (2000) pointed out that other factors, such as the home country, the size of a firm, and the industry, play a role in the choice of a target market. This supports Cavusgil's findings discussed in the previous section. Further, Clark and Pugh (2001) found that the affluence of the target market was a more important factor than size. An example of the influence of specific factors overriding psychic distance can be found in the meta-analysis of Tihanyi et al (2005) from 66 independent samples. As a whole, they did not support the relationship between cultural distance and international operation mode, or target market choices. However, they did find important results when they analysed moderating factors. In their analysis of US-based MNEs they found strong negative correlation between cultural

distance and operation mode choices, creating a psychic distance paradox, which seems to indicate that home country specific issues can be relevant. This also applied to cultural distance and international target market choices for firms in specific industries, which was the case for high-technology industries in their study. On the other hand, this same correlation was positive for other industries, which supported the concept of psychic distance. In addition to the more factual measures discussed above, it is equally important to understand the influence that managers' perceptions can have on the concept of psychic distance (Eriksson et al., 2000, Evans et al., 2000a, Chang and Rosenzweig, 2001).

Brouthers and Brouthers (2001) in their study of firms from four western European countries entering markets in central and eastern Europe, argued that investment risk may be a moderating factor to cultural distance. They found that companies preferred wholly-owned operation modes over joint ventures (JVs), when they entered culturally distant markets where the investment risk was high. This was in contrast to the earlier results of Kogut and Singh (1988) and Erramilli and Rao (1993), whose studies were more in line with the traditional internationalisation theories.

Another example of a contradictory finding is the shock effect when a firm enters a country with small psychic distance, but which does not occur when entering distant countries (Pedersen and Petersen, 2004). This may be due to managers' initial underestimation of differences when entering close markets (Pedersen and Petersen, 2004), and may be one reason for reversals in the internationalisation process. On the other hand, Evans et al. (2000a) and Tihanyi et al. (2005) argued that in many industries it is more attractive for firms to enter markets with longer psychic distance due to the opportunities they offer. For example, lower enterprise density, market concentration and economic development in developing markets may offer more opportunities for firms from developed countries. In these cases the psychic distance paradox is apparent as companies from highly developed countries can actually perform better in developing markets. Moreover, psychic distance



seems to be a more significant factor for firms which sell customised products than firms which sell standardised products (Pedersen and Petersen, 2004).

A further challenge is that in spite of the wide use of psychic distance in research, the operationalisation of the concept is still inadequate (Dow, 2000, Evans et al., 2000a, Tihanyi et al., 2005). As Dow (2000) noted, the concept appears to have been tested rarely and imperfectly. Dow (2000) developed an instrument to test psychic distance on Australian SME manufacturers and found support for the importance of geographic distance, but not much for psychological distance when compared with Sethi's and Hofstede's scales. He argued that these concepts should be used in proper context and not applied to every situation. Also, the longitudinal study of Clark and Pugh (2001) on 19 British firms found that geographical distance was a more important factor than cultural distance, and Evans and Mavondo (2002) argued that cultural distance was not a good explanatory factor without including other factors such as business differences into the analysis.

Despite all these contrasting findings, psychic distance still seems to explain a large part of the variations in firms' international performance and effectiveness (Evans and Mavondo, 2002). However, the explanatory power of the concept of psychic distance could be improved by understanding better its variables and perhaps dividing it into smaller parts (Evans and Mavondo, 2002, Tihanyi et al., 2005), and including moderating factors into the analysis. More research is required to further understand the role of psychic distance in the internationalisation strategies of firms in various industries and across different home countries (Evans et al., 2000b, Tihanyi et al., 2005).

#### **2.4.4 The Network Approach**

The 'network' approach to internationalisation (Johanson and Mattsson, 1988) was based on the process models but, in attempting to address some of the criticism of the early process theories, emphasised the importance of a firm's external environment and its networks to the internationalisation process.

The network approach had two main dimensions: *degree of internationalisation of the firm*, and *degree of internationalisation of the market*. Within these dimensions four different types of firms were defined: *the early starter*, *the lonely international*, *the late starter*, and *the international among others*. Johanson and Mattson (1988) argued that the former two types of firms followed the traditional internationalisation pattern, where as the latter two, already operating in an international environment, are able to utilise international networks and thus internationalise more rapidly.

Johanson and Mattsson also argued that the dominance of the process models and other traditional theories, such as transaction cost theory and internalisation theory, was decreasing, because of changes such as the internationalisation of the business environment. This argument was also supported by later research undertaken by Johanson and Vahlne (1990).

Some more recent studies also emphasised the importance of the network approach in understanding firms' internationalisation strategies (Benito and Welch, 1994, Andersen and Buvik, 2002, Hadley and Wilson, 2003). Networks improved firms' capabilities to increase their international commitments (Benito and Welch, 1994). Andersen and Buvik (2002) noted that due to interrelationships between entry modes and international market and customer choices, there are situations in which the network approaches become more important in explaining the internationalisation of the firm than traditional models. They argued that the type of customers – manufacturing, service companies, or consumers - will affect which approach is more feasible. They also believed that these two approaches complement each other in gaining a better understanding of the internationalisation process of a firm. More recent research on clusters has also emphasised the importance of networks on a firm's internationalisation (Porter, 1998, Dunning, 2000b), and this will be discussed further in sections 3.3.5 and 7.7.

## **2.4.5 Recent Views on Internationalisation Process Theories**

Despite the fact that the original internationalisation process models were developed three decades ago, and the criticism they have received over the years, they still seem to offer important concepts to help understand internationalisation as a dynamic process. Moreover, Liesch et al. (2002, pg. 26) even argued that:

*Even though there is now a considerable and growing body of research on various aspects of internationalization, there remains limited development and questioning of the basic concepts that underpin internationalization as a process. Indeed, one could argue that we have barely scratched this surface.*

Thus, it seems that the internationalisation process models still have a long way to go and there is a need to develop them further. Today this may be even more pressing given the rapid changes in the business environment. As Liesch et al. (2002) noted, there is a resurgence of interest in this field. Some areas of interest under investigation include knowledge and networks, and more rapid pace overall in a more globalised world (Hadjikhani and Johanson, 2002). Firms may not have time to internationalise gradually and, in accelerating the pace of internationalisation, they need to acquire experience from their networks and other sources (Forsgren, 2002).

In their response to some of these arguments, Johanson and Vahlne (2003) admitted that they had underestimated the influence of networks and the role that relationships play in the process. Moreover, they argued that they never intended their model to be a deterministic establishment chain, rather a model on learning and increasing commitments to markets (Johanson and Vahlne, 2006), thus implicitly inviting researchers to test its applicability in different contexts.

## **2.5 Summary**

It has been argued in this chapter that the two main streams on internationalisation are complementary, rather than contradictory. The differences were discussed and the motivations for firms to internationalise, well identified by the economic theories, especially

the OLI-model, were linked with the dynamic theories on internationalisation as a process. It has also been shown that although these main theories are still valid in many areas, they also have their deficiencies, and there is a case to extend them further.

It has been demonstrated that the internationalisation process theories offer an explanation of the dynamic process of internationalisation, but the situation may be more context specific than previously considered. Thus, the issues in the internationalisation process model and its development that were identified in this chapter will be further investigated in the next chapters.

In Chapter 3, more in depth discussion and an analysis of globalisation developments and the challenge that they have brought to the existing internationalisation models, will be undertaken. Insight from strategic management theories of firms' external and internal factors will be analysed in Chapter 4. In Chapter 5 the internationalisation of services will be reviewed in light of existing internationalisation process theories.

## **3 Globalisation Developments**

### **3.1 Introduction**

In this chapter, globalisation phenomena, their drivers and their influence on firms' international strategies in general, and on traditional internationalisation process theories in particular, will be discussed. Yip's (1989) well known classification of globalisation drivers are reviewed and linked with different types of MNEs' foreign-based activities identified in the international business literature. Also, counter arguments and barriers against globalisation are investigated, as is the debate on globalisation versus regionalisation developments. Towards the end of the chapter, the relevancy of these findings to the concept of psychic distance is discussed.

It will be argued here that globalisation developments have accelerated the internationalisation processes of firms in general, influencing the applicability of traditional internationalisation process theories. However, it will also be argued that these developments have not always been linear and that many of the globalisation drivers seem to be industry specific contributing to a complex overall picture. The role of psychic distance may have also changed due to globalisation forces.

### **3.2 Globalisation Phenomenon and Drivers of Globalisation**

Since the 1970s and early 1980s when traditional internationalisation theories were developed, the globalisation phenomenon has grown in importance, and research interest in this area has increased rapidly (Levitt, 1983, Ohmae, 1989b, Yip, 1989, Dunning, 1995, , 1997, Bartlett and Ghoshal, 1998, Dunning, 1998, Kirpalani and Luostarinen, 1999). This development intensified in the 1990s and into the 21<sup>st</sup> century (Aharoni and Nachum, 2000, Bird and Stevens, 2003, Clark and Knowles, 2003, Ricks, 2003, Buckley and Ghauri, 2004, Luostarinen and Gabrielsson, 2004).

There are numerous definitions of globalisation in the literature. Often business is identified as the main driver. The OECD (2007) defined globalisation as:

*The term globalisation is generally used to describe an increasing internationalisation of markets for goods and services, the means of production, financial systems, competition, corporations, technology and industries.*

However, there are also other aspects to globalisation than just economic, reflected in a broader definition of the phenomena provided by Clark and Knowles (2003, pg. 368):

*The process by which economic, political, cultural, social, and other relevant systems of nations are integrating into World Systems is called Globalization.*

Although most international business and management studies have their emphasis on the economic perspective of globalisation, the political, cultural, and social perspectives are tightly integrated and become important in understanding the broader picture. Thus, these other aspects will be also considered in this chapter.

Often the terms ‘globalisation’ and ‘internationalisation’ are used interchangeably without a clear differentiation. In this study, the term internationalisation is used to describe the general process of entering foreign markets, usually starting within the same continent (Gabrielsson and Gabrielsson, 2004), whereas globalisation refers to the overall integration of world systems consistent with the definitions above. Thus, globalisation often results in firms perceiving the world as a single market place in which they integrate their operations across continental markets by using global strategies (Yip, 1989, Gabrielsson and Gabrielsson, 2004).

Globalisation is not a new phenomenon. However, it is the rapid pace of recent globalisation developments which is unprecedented (Husted, 2003). The latest globalisation developments have significantly changed the environment in which firms operate (Oviatt and McDougall, 1994, Dunning, 1998, Fletcher, 2001). This development in our understanding of globalisation and the drivers of globalisation may have been one of the main reasons why earlier theories and models of internationalisation have lost some of their explanatory power (McDougall et al., 1994, Madsen and Servais, 1997, Dunning, 1998, Stottinger and

Schlegelmilch, 1998, Fletcher, 2001). Thus, in the discussion and analysis of internationalisation processes and in the aim of reaching a comprehensive understanding, it is important to consider globalisation drivers and to compare them with the more traditional motivations for MNEs to internationalise.

Traditionally companies internationalised to secure key supplies, to seek new markets, and to gain access to lower-cost factors of production (Bartlett and Ghoshal, 1992). Dunning (2000a) called these market-seeking and resource-seeking FDI activities. Bartlett and Ghoshal (1992) claimed that the product cycle theory was able to explain this pattern well, but that its explanatory power had declined by 1980. Also, it can be argued, that traditional internationalisation process theories (especially the models that included inward modes in addition to outward modes) covered these early internationalisation patterns well. The drivers were quite static and international development of MNEs gradual and incremental (Bartlett and Ghoshal, 1992).

However, during the latest rapid globalisation phase researchers have identified several globalisation drivers which have influenced the internationalisation processes of firms. These drivers include:

- more homogeneous consumer tastes (Levitt, 1983, Ohmae, 1989b, Bartlett and Ghoshal, 1992, Luostarinen, 1994, Luostarinen and Gabrielsson, 2004);
- economies of scale in production and R&D combined with shortening product life cycles (Levitt, 1983, Ohmae, 1989b, Yip, 1989, Bartlett and Ghoshal, 1992);
- more standardized products (Levitt, 1983);
- development in communication technology and transportation (Ohmae, 1989b, Luostarinen, 1994, Luostarinen and Gabrielsson, 2004);
- more global competition (Porter, 1986, Yip, 1989, Bartlett and Ghoshal, 1992, Luostarinen, 1994);
- deregulation and privatisation (Bartlett and Ghoshal, 1998);
- decreasing trade barriers, including the establishment of EU and NAFTA (Yip, 1989, Luostarinen, 1994, Kirpalani and Luostarinen, 1999);
- maturing domestic markets (Yip, 1989);

- globalising financial markets (Lowell and Fraser, 1999, Buckley and Ghauri, 2004);
- global managers and employees (Luostarinen, 1994, Bird and Stevens, 2003); and,
- global culture and more common languages (Bird and Stevens, 2003).

These drivers accelerated the process of internationalisation. Firms had more means, but also more pressure to internationalise rapidly into several markets. In addition to traditional market-seeking and resource-seeking motivations, other issues increased in importance. Efficiency seeking FDI was related to the market and resource-seeking FDI, but following them in sequence in order to derive greater benefits from the differences in labour costs and specialisation between different markets (Dunning, 2000a). It could be argued that this increased efficiency and integration across markets was made possible by several globalisation drivers such as more standardised products, homogenised customer tastes, and development in communication and transportation. Moreover, strategic-asset seeking FDI was addressing the need to act against and pre-empt competitors' strategic initiatives in international markets (Dunning, 2000a). Clearly the need to increase the level of integration between different country markets was emphasised. At the same time, this also introduced several new dimensions into the decision to enter any individual market thus increasing the requirements to accelerate the overall internationalisation process.

Yip (1989), in his seminal article on globalisation drivers, classified them into four main groups: global customers and channels, and transferable marketing were *market drivers*; economies of scale and scope, learning and experience, and different skill and cost levels between different countries were among *cost drivers*; *governmental drivers* consisted of standards, regulations and trade policies; and globalised competitors and interdependence of countries were defined as *competitive drivers*. An example of a competitive driver is the notion that globalisation of competitors can require a strategic response from a company (Yip, 1989), in a similar way to the strategic-seeking activities identified by Dunning. In many areas there are similarities in Yip's grouping of industry globalisation drivers to that of Dunning's list, although these two classifications are not identical and were developed to



describe different phenomena. Dunning's classification focused on MNEs' FDI activities and firms' motives to internationalise, whereas Yip's globalisation drivers helped to explain the differences between multidomestic and global strategies, and can be extended to include a broader array of globalisation developments than just FDI-activities. Moreover, Yip's classification included a focus on governmental drivers, a group of drivers which had received scant attention than deserved in earlier studies on internationalisation.

One of the main purposes of Yip's (1989) study was to differentiate between traditional MNEs, which used multidomestic strategies by adapting their operations to each country market, from firms with a need to implement global strategies by standardisation and increased integration across different country units. His argument was that the underlying globalisation drivers were pushing some companies to implement a more global approach in regard to their market participation, product standardisation, the concentration of activities, marketing, and competitive moves. It could be argued that with the increasing requirements for a global strategy, the overall internationalisation process had become more rapid than the traditional models would suggest, and that an individual country market's importance as a factor in decision making had decreased. Following this argument, it could equally be argued that this would limit the influence of psychic distance in the decision making of globalising firms.

Following Yip's study of global strategies, Zou and Cavusgil (1996) used his classification as a basis for their model, but added technological factors such as communication and transport technologies as a fifth group. Within this group of drivers probably the development of the internet has been the most significant single factor, as Yip (2000) emphasised in his more recent work. The internet, by enabling more efficient marketing and distribution, is a globalisation driver itself, and it also contributes to other drivers; for example, by bringing consumer tastes closer globally (Yip, 2000), and also contributing to the emergence of global cultures. Some of these changes in the business

environment have also created opportunities for more firms, even for small ones, to globalise and to do it at a faster pace than ever (Luostarinen, 1994, Thompson and Strickland, 2001).

Lowell and Fraser (1999), echoing Levitt's (1983) earlier arguments, claimed that the globalisation development will continue for the next 30 years decreasing geographic and regulatory barriers even further, and that the value of global markets will increase from 20 percent to 80 percent of total world markets<sup>2</sup>. They believed that rules are changing and companies need to restructure their organisations and strategies to adapt to these new rules. All this would bring even more pressure to update the existing models of the internationalisation process.

### **3.3 Counter Forces and Arguments against Globalisation**

Theories on globalisation have developed since the phenomena emerged in the business literature at the beginning of the 1980s (Clark and Knowles, 2003). In spite of the broadly reported findings on globalisation developments discussed in the previous section, there is evidence that developments in the theory of globalisation have not occurred in a linear way or without controversy. There are still significant counter forces to globalisation, such as nationalism, individual national government policies and standards (Clark and Knowles, 2003), and regional variations in languages and customer tastes (Rugman and Hodgetts, 2001). Moreover, the environment still varies between different country markets because of broad factors such as culture and market demographics (Thompson and Strickland, 2001). Since the accelerated pace of globalisation developments since 1990, other events such as the Asian financial crisis, instabilities in Russia and Latin America, and the war on terrorism, have all had limiting effects on globalisation (Ghemawat, 2003). Although we are living in a more globalised world, it is still far from being fully integrated economically or in broader terms (Ghemawat, 2003). Some of the developments seem to be permanent, such as technological changes, but some other, such as political changes, may be

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<sup>2</sup> Levitt argued that companies with a global strategy will replace traditional multinational/multidomestic companies.

reversible (Ghemawat, 2003). In the next sections some of these still existing barriers to globalisation will be discussed.

### **3.3.1 Differences across Industries and between Companies**

Yip (1989) noted that, despite the wide recognition of general globalisation drivers, many of the actual drivers are industry specific. Moreover, even if the industry specific factors are the same, internationalisation strategies can differ amongst firms. This observation was reinforced by Bartlett and Ghoshal (1992), Zou and Cavusgil (1996), Thompson and Strickland (2001), and Buckley and Ghauri (2004) in more recent studies. For some firms a global strategy is more optimal, whereas for some others a multi-domestic strategy fits better. Thus, it could be argued that internationalisation processes of firms across industries will also vary, as the motivation and logic to enter individual country markets may be very different for a global company from that of a multidomestic company. In addition, the situation is dynamic and changing over time (Yip, 1989), and although the environment often moves towards a more globalised situation it can also move in a direction in which global strategies will again become unfavourable (Yip, 1989, Baden-Fuller and Stopford, 1991)<sup>3</sup>.

Moreover, the need for a global strategy cannot be decided on an industry basis only. There are industries which have both globally competitive segments and segments where competing on a country-by-country basis is more sensible (Zou and Cavusgil, 1996, Thompson and Strickland, 2001). For example, firms may have limitations, such as financial or managerial resources, in how they are able to implement global strategies; that is, even in cases in which a global strategy would be an optimal solution, limitations may force a company to adopt other strategic options (Yip, 1989). To manage these complexities of globalisation, MNEs need to introduce more and more sophisticated market and operation strategies to implement the most optimal operation mode for each specific activity and market

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<sup>3</sup> An example of this can be found in the European domestic appliance industry in the late 1980s where complexities and variations between different country markets reduced economies of scale advantages, thus evaporating the competitive position of the global players in this industry (Yip, 1989, Baden-Fuller and Stopford, 1991).

(Buckley and Ghauri, 2004). These differences between global and multidomestic strategies will be discussed in greater depth in the next chapter, which will review organisation strategies of MNEs.

### **3.3.2 Social and Cultural Factors in Globalisation Developments**

Although economic factors and benefits are often emphasised in globalisation developments, there are also other dynamics, such as social and cultural factors which are important and can often explain resistance to globalisation (Clark and Knowles, 2003). Some stakeholders perceive globalisation not only as a positive factor to advance the interests of business, but also as a threat. This perception of globalisation as a threat seems to grow at the same pace as the support for globalisation. For example, some globalisation critics (Klein, 2000, Stiglitz, 2002) have claimed that globalisation has not delivered benefits equally among different regions and countries. Globalisation and its coverage in the research literature has been overwhelmingly a phenomenon of OECD countries (Sobel, 2003), and there are differences in the degree of globalisation between different countries and cultures (Prasad, 1999, Yip, 2000, Clark and Knowles, 2003, Ghauri, 2004). Access to global capital markets has mostly benefited firms and governments from developed countries, and almost all of the headquarters of global MNEs are located in developed countries (Sobel, 2003). Challenges to globalisation include job insecurity, increasing pollution, income inequality, decreasing power of national states and the disappearance of local cultures (Buckley and Ghauri, 2004). Due to these and other factors 'modern capitalism' has created a 'low-trust culture', which now results in regular protests against globalisation around the world (Buckley and Ghauri, 2004). Moreover, terrorist attacks on September 11, 2001 was a point at which political attitudes in the US and elsewhere changed, favouring more intraregional trade (Rugman, 2003b). All these underlying reasons have challenged the smooth development of globalisation.

### 3.3.3 Regionalisation

Another challenge to the globalisation phenomena is the growth in popularity of regionalisation developments. Several researchers (Rugman, 2000, Bryson, 2001, Proff, 2002, Rugman, 2003b, Rugman and Girod, 2003) have argued that in spite of the dominant position of MNEs in the world economy, only a few are truly global, as most of them still operate predominantly within their home region/continent. That is, the key trend seems to be regionalism (Rugman, 2000, Proff, 2002), or semi-globalisation (Ghemawat, 2003). The main arguments supporting the push for regionalisation are, firstly, that although many MNEs may operate globally, the majority of their revenues are still generated in their domestic region (Rugman and Hodgetts, 2001, Rugman, 2003b), and secondly, that intraregional trade flows are increasing more rapidly than global ones (Rugman, 2003b). Rugman's research (Rugman, 2003b, a) emphasised the need to differentiate between a regional and a global company.

Partly related to this theory of regionalisation, there may also be a need to differentiate between firms' internationalisation and globalisation processes. Gabrielsson and Gabrielsson (2004) in their study of globalising internationals, argued that often companies first internationalise within their home continent, before starting to globalise to other continents. To internationalise within a home region is relatively easy, but there are often significant challenges for a firm to move from an international to a global development phase (Yip, 1989, Bartlett and Ghoshal, 1998, Gabrielsson and Gabrielsson, 2004). This gives support to traditional internationalisation process theories with an incremental process in regard to psychic distance.

Rugman's (2000, , 2003b), Rugman and Girod's (2003), and Rugman and Verbeke's (2004) studies on regionalisation had their basis in the analysis of world business across three major triads<sup>4</sup>. The triads are the major regions and trading blocs: the US, the EU, and Japan, or in some cases more broadly, such as Europe as a whole, NAFTA in North America, and

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<sup>4</sup> This was based on Ohmae's (1985) original introduction of the concept of 'triad power'.

Asia/APAC (Buckley et al., 2001, Rugman and Hodgetts, 2001, Rugman and Verbeke, 2004). Rugman et al.'s main argument was that most MNEs operate regionally in one or two of the triads, rather than globally.

These studies on regionalisation focused on the 500 largest MNEs in the world, which consist of over 90% of the world's stock of FDI and half of the world's trade (Rugman and Hodgetts, 2001, Rugman, 2003b, Rugman and Verbeke, 2004). They classified four different types of MNEs: home-region oriented, bi-regional, host-region oriented, and global. Based on their definitions, only 9 companies out of the 500 were truly global. Almost all of the global companies were "restricted to the upstream end of the value chain", such as manufacturers in the computer, telecom equipment and other hi-tech sectors.

It must be noted that although these regionalisation studies make a point, some of the definitions for a global firm may be overly strict (Aharoni, 2006). Under these requirements a firm is deemed to be global when 50% or more of its revenues are generated outside of its home-region, and at least 20% of revenues are generated from each triad region. However, many firms may be very global in their orientation, for example in regard to other functional activities, and they may generate an important and growing share of their revenues from each triad without exactly fulfilling the 20%-rule prescribed by Rugman and Hodgetts. Moreover, firms may be well established outside of any of the triads; that is, generating relatively high proportions of their total revenues from countries outside the three triads. For example, regional integration has also occurred outside of the major triads, such as in South America, East Asia, Southern Africa (Proff, 2002), a finding not emphasised in most regionalisation/globalisation arguments. In all of these cases it may be justified to define these types of firms as global, in contrast to Rugman et al.'s arguments.

Aharoni (2006) also claimed that the definitions of the regions in Rugman et al.'s research were inconsistent, as in some reports the US-based triad included Mexico, whereas in some others it did not. This argument also applied to defining the European region, as in

some cases it included only the EU, whereas in some others the whole of Europe was included in the analysis. This requirement for a clear definition is important, as loosely defined regions can include many countries with very different development phases and countries with greater psychic distance within a region than suggested by these regionalisation theories. Also, Aharoni (2006) pointed out that, unlike the argument of Rugman et al., languages and cultures can have more similarities across than within regions, using an example of the closeness of the US and the UK. Also, Ghemawat (2003) argued that 'regions' can be defined in other dimensions than geographic locations, for example including Spain within the same region as Latin America.

Furthermore, one limitation of these regionalisation studies is that they are heavily biased towards the largest MNEs, many of them originating from the largest domestic markets such as the US and Japan. This means that these firms may not have an urgent need to internationalise rapidly, and consequently many of them do not fulfil the definition of an MNE (Aharoni, 2006). Many firms that originate outside of these large markets and do not belong to the top 500 firms in the world can be very global, and not including them in an analysis may underemphasise the overall importance of the globalisation phenomenon. In addition, Aharoni (2006) stated that the regionalisation analyses were static, as they only included data from two consecutive years, and were not able to capture fully the direction of globalisation development. To summarise, although there seems to be evidence that many MNEs are regional, more research needs to be done before it can be stated that regionalisation, in contrast to globalisation, is the dominant trend.

### **3.3.4 Strategic Implications of Regionalisation Developments**

In cases where regionalisation is the key theme, it could be argued that it has significant influence on firms' internationalisation strategies. Although the role of individual countries has decreased due to globalisation factors, countries have formed regional trading blocs for their protection from the external environment and to expand their internal markets,

thus gaining economies of scale advantages (Buckley et al., 2001). This growth in the size of 'domestic' markets from a home country to a home region through regionalisation may be especially valuable for the multinationals from small countries (Buckley et al., 2001). All this has influenced internationalisation strategies, such as FDI decisions. For example, when analysing different phases in regard to market strategies, there seems to be support for psychic distance, as the different trading blocs are usually created together with neighbouring countries (Buckley et al., 2001). Thus, a regionalisation strategy encourages developments in which the first international market entries occur within a close psychic distance. On the other hand, when analysing operation strategies the situation may be different. Due to decreased trade barriers within a region manufacturing companies may not need to invest anymore in production facilities in other countries within the same region, as exporting becomes a more viable option. However, when aiming to achieve a market position globally they may still need to invest in other trading blocs, or triads, to overcome the remaining existing trade barriers between regions (Buckley et al., 2001). This would support the psychic distance paradox, as more committed operation modes would be required in countries with long psychic distance.

Another strategic implication from regionalisation developments is that due to geographic, cultural and economic proximity market share battles are often fought within regions, rather than globally (Rugman and Hodgetts, 2001, Ghemawat, 2003). When this is the case, strategic-asset seeking activities or competitive factors of globalisation should also be analysed within a region rather than globally. Ghemawat (2003, , 2005) actually claimed that there are three levels in which firms need to manage their strategies: local, regional, and global. Although he recognised the importance of globalisation developments, he also argued that as markets are not yet fully integrated there is a need for successful firms to apply a regional strategy in addition or instead of a global one.



### **3.3.5 Clusters**

Another perspective on globalisation developments is the concept of clusters. Porter (1998) argued that in spite of globalisation, the importance of home country and location has increased, not decreased. His concept of the ‘diamond of national advantage’ (Porter, 1990) and research on clusters have both emphasised the role of home country and/or region in creating a firm’s competitive advantage. His argument was based on the positive influence of intensive domestic competition, which resulted in the increasing competitiveness of a nation. Researchers have identified clusters in many industries, and stressed their increasing importance especially in knowledge intensive industries (Dunning, 1998, Porter, 1998). So instead of an increasing homogenisation of markets, it may actually be that some of the globalisation developments emphasise differences across markets, which may then become a competitive advantage that benefits companies (Sobel, 2003). MNEs are increasingly seeking locations in which they find an optimal environment for economic and knowledge development (Dunning, 1998), and the role of location-specificity is still very critical (Ghemawat, 2003). Clusters will be discussed further from the perspective of small home countries in section 7.7.

### **3.4 Summary**

It has been argued in this chapter that globalisation developments have caused the internationalisation processes of firms to be more rapid than suggested by traditional internationalisation process theories. It has also been demonstrated that there are still several counter forces to globalisation, and many MNEs seem to be regional rather than global in their orientation. However, is this just a phase in a long-term trend towards globalisation, as Proff (2002) argued might be the case, or has the development towards globalisation peaked and are we now moving towards regional development and intraregional trade, as Rugman (2003b) claimed?

This chapter has attempted to establish links between these developments and internationalisation process theories. For example, by analysing how the importance of the concept of psychic distance may have changed over time. Also, it has been argued that although the traditional internationalisation process theories still provide an adequate explanation for some areas of internationalisation, there are other areas such as strategic asset-seeking motives/competitive factors and government factors that require further understanding and extension of the theory.

It also has been shown that there are industry specific and company specific differences in how different firms have addressed the challenges and opportunities of globalisation in their overall internationalisation processes. As a result, not all industries and companies have been able to utilise and benefit from globalisation drivers equally. Some industries have required more global strategies, and some have been more multidomestic in their nature (Yip, 1989). The next chapter will focus on some of the industry and company specific issues on internationalisation and differences in organisation strategies of MNEs from a more strategic management aspect. Further discussion of the industry specific globalisation drivers in the context of service industries will be developed in Chapter 5. In Chapter 6 the internationalisation of telcos will be considered.

## **4 Strategic Management Considerations on Internationalisation**

### ***4.1 Introduction***

The review of recent findings of traditional internationalisation process/stages models in Chapter 2 identified industry specificity and company specificity as important factors that help explain deviations in firms' internationalisation patterns. In Chapter 3, it was discussed how several globalisation drivers that affect internationalisation processes are industry specific. In this chapter these previous discussions will be extended by exploring these issues from the strategic management (literature) perspective on internationalisation.

First, a brief overview of the relationship between international business and strategic management disciplines will be discussed. Second, strategic management theories based on industrial organisation theories will be reviewed and analysed to understand the external environment of the firm, especially industry structure and its influence on strategies. Third, resource-based theories will be discussed to gain a better understanding of the influence of firms' internal resources' on internationalisation strategies. Fourth, the analysis will be expanded to a brief discussion of value chains and value systems/networks as, it can be argued, both external and internal factors play an important role in how companies decide to organise their activities in a value chain and across industry value networks. Finally, the developments of firms' international organisation structures in response to these external and internal factors will be discussed.

It will also be argued that international business research and strategic management fields although separate are increasingly interrelated. Thus, the integration of theories from both of these fields will increase our understanding of a firm's internationalisation process. It will be argued that both external industry specific factors and internal company specific factors are important in shaping the internationalisation patterns of firms. It will also be demonstrated that the organisation and operation strategies of firms are interdependent from

the whole internationalisation process. In addition, it will be further demonstrated that the concepts of value chain and value networks, and research of firms' international organisation structures, strategic alliances and born globals provide an insight as well as concepts to extend our understanding of firms' internationalisation. This will also address Welch and Welch's (1996) requirement for studies which integrate strategic and international business theories and models as a basis to understand better the process of internationalisation.

#### **4.2 *Integration of International Business and Strategic Management Theories***

Originally the field of strategic management had its focus on challenges to firms in their home markets, and internationalisation was seen as an additional part in the whole strategic planning process (Yip, 1989, Bartlett and Ghoshal, 1992, Morkel et al., 1999). Thus, it could be argued that strategic management models and theories have not emphasised all the relevant factors in regard to internationalisation, such as psychic distance, a key concept in international business research. However, as argued in the previous chapter, most companies have faced the challenges of globalisation, and knowledge of international markets and internationalisation processes have become extremely important issues in management decision-making (Evans et al., 2000a). Strategic management research therefore needs to focus more on these issues, and international business research could contribute to this development.

At the same time international business research can also benefit from the work of strategy scholars (Welch and Welch, 1996). This is the main focus of this chapter. For example, the strategy field with more contingent and qualitative managerial approaches can challenge and complement traditionally more positivist, quantitative and rational economic approaches on internationalisation (Parkhe, 1993). Many of the challenges and criticisms of economic and process models in international business research may have been caused by too static and/or rigid approaches to internationalisation (Rumelt et al., 1991), as already

discussed in Chapter 2. Unlike most internationalisation theories, strategic management research emphasises the fact that industries are heterogeneous (Rumelt, 1991). Thus, internationalisation process models can benefit, for example, if external industry specific factors are included in the analysis (Benito and Welch, 1994). Furthermore, the strategic decisions of individual firms are often more flexible and opportunistic than traditional internationalisation theories would suggest (Welch and Welch, 1996). In fact, being different is often defined to be the essence of a successful strategy (Wernerfelt, 1995, Porter, 1996).

As a result of these developments it seems that more interdisciplinary research integrating both strategic management and international business theories and models would help to understand better the internationalisation of firms. These issues have been raised by some researchers in international business field with their requirements for developing better and more comprehensive theories and models on the internationalisation of the firm (Benito and Welch, 1994, Welch and Welch, 1996, Fahy, 2002, Liesch et al., 2002, Petersen and Welch, 2002).

### ***4.3 Company's External Environment: Industrial Organisation Approach***

In order to understand firms' strategy it is useful to consider the external environment of the firm. Strategic management research with its background in industrial organisation (IO) theory does this by emphasising a firm's external environment, such as markets and industry structure<sup>5</sup>. One of the most well known works in this area is Porter's five forces model, which included potential entrants, suppliers, substitutes, buyers, and competitors as factors in its analysis of an industry (Porter, 1980, 1985). The model places emphasis on the industry structure and a firm's relative position in shaping a firm's strategy and contributing to its competitive advantage. For example, barriers to entry, competitor moves, and policy changes are listed as important factors in contributing to industry structure. Although some of

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<sup>5</sup> Industrial organisation theories are based on the work of Mason (1939, , 1966) and Bain (1968) (the 1<sup>st</sup> edition published in 1959). See also a comprehensive review in Tirole's (1988) book.

the internationalisation theories, such as the network approach, emphasised a firm's external relationships as an enabler to rapid internationalisation, generally competitive and governmental factors attracted less attention in international business research. Thus, Porter's model provides a valuable input to the analysis of internationalisation processes/strategies.

One of the main arguments in Porter's model was that the essential point in strategy is how companies face the *competition* and what their market position is. Thus, although not developed to analyse internationalisation processes, the five forces model can help to explain other factors than pure economic or learning-based motives of companies to enter individual international markets. It could be argued that as a result of competitive motives and in order to maximise their global long-term profitability, for example, by securing economies of scale advantages early, MNEs often use offensive and defensive strategies against their international competitors (see also Yip, 1989). In doing so they sometimes make decisions that may not seem reasonable based on the observations of events in one single country market only.

Porter also paid attention to *governmental forces*, as he argued that these may have an important role in shaping entry barriers in an industry. These findings, the importance of both competitive and governmental forces, can be linked with Dunning's strategic-asset seeking motives, and Yip's notion of competitive and governmental drivers discussed in the previous chapter.

In the internationalisation process of a firm in general, and especially in *high growth* industries and in industries where MNEs are dominant, the timing of an operation may be a very important factor. Porter claimed that in situations of rapid change in an industry, understanding the five forces becomes even more important. This is most evident in an environment of rapidly expanding *hypercompetition* with shortening product life cycles and many new entrants, as argued by D'Aveni (1995). In these types of situations companies need to proceed fast which may also include taking more risks and being more aggressive than

normally is the case (D'Aveni, 1995, Hamel and Schonfeld, 2003). This issue of a rapid change in an industry environment, although mentioned in some studies, has not been emphasised (or been a significant factor) in most internationalisation theories, with the exception of the research on born global companies.

One specific area of research that analysed the influence of industry structures on internationalisation strategies has been the research on oligopolistic industries. One of the seminal works in this area is Knickerbocker's (1973) comprehensive study of the US manufacturing companies in post World War II. He found that firms in oligopolistic industries often followed the leader's actions using the term *bandwagon* to describe this phenomenon; that is, firms in oligopolistic industries may enter international markets rapidly due to competitive dynamics. These findings were also supported by Yu and Ito (1988) in their study on the US tyre and textile industries, although they also found support for firm specific and host-country specific factors<sup>6</sup>.

In summary, these findings support the discussion on global drivers in Chapter 3; that is, in addition to market and cost-based drivers commonly recognised in traditional internationalisation theories, competitive and governmental drivers also seem to be very important in regard to firms' internationalisation. Strategic management theories based on industrial organisation theory have provided an insight to these factors and their influence on firms' strategies, including internationalisation strategies.

#### **4.4 Company's Internal Resources: Resource-Based View**

Although the IO-based strategic models, discussed in the previous section, have made an important contribution to the understanding of external markets and industry forces' influence on a firm's strategy, they have not included a firm's internal factors and resources

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<sup>6</sup> Some other studies that have emphasised competitive motivations in their analysis of firms' international strategies include the research on pressure maps by D'Aveni (2002), on pre-emptive moves by Brouthers and Wilkinson (2002), the *global chess* concept by Hout et al. (1982), and some economic based models on game theory and equilibrium (Brandenburger and Nalebuff, 1995).

in their analysis (Rumelt et al., 1991, Zou and Cavusgil, 1996). In addition, the basic assumptions of these theories are still based on mostly rational actions of decision makers, (sometimes) neglecting important human aspects (Rumelt et al., 1991). Thus, these theories are not able to explain satisfactorily the performance heterogeneity between firms (Rumelt, 1991, Fahy, 2002).

To address this gap in research, the resource-based view (RBV) theories emerged by emphasising the importance of firms' internal resources for their strategy (Rumelt, 1984, Wernerfelt, 1984, Barney, 1991, Rumelt et al., 1991, Barney, 1996, 1997). The resource-based models and theories in strategic management have their origins in Penrose's theory of the firm (for example, Seth and Thomas, 1994), just like internationalisation process theories, as discussed in Chapter 2, although their focus is different. The development of these models started in the 1980s from the work of Wernerfelt (1984), but it was not until the 1990s that they became well recognised in strategic management research and management practice.

The RBV focused on the differences in companies' resources, capabilities and processes to produce products and services, rather than on the differences of the actual products (Wernerfelt, 1984). Barney (1991) argued that companies could have three types of resources: *physical capital*, *human capital*, and *organisational capital*. Physical capital includes physical technology, a firm's plant and equipment, geographical location, and access to raw materials; human capital includes training, experience, judgement, intelligence, relationships, and insight of individual managers and workers; and organisational capital includes a firm's formal reporting structure, formal and informal planning, and controlling and coordinating systems (Barney, 1991). In his later study Barney (1995) also emphasised the role of financial resources as a fourth main group. The traditional internationalisation theories have also discussed issues that can be linked to a firm's resources (for example, ownership advantages, the size of the firm, and organisational learning). However, their role,



especially that of human capital, including individual managers and knowledge workers, and financial capital as important factors have received relatively little attention.

The RBV emphasised that firms are heterogeneous in their possession of resources (Barney, 1991), and that the most important resources to competitive advantage of a firm are those that are not easily transferable across companies and are difficult to imitate by others (Barney, 1991, Conner, 1991)<sup>7</sup>. Also, if the industry situation changes, the relative importance of certain resources may change over time: from weaknesses to strengths and vice versa.

Managing these valuable resources, or *core competences*, the term made popular by Prahalad and Hamel (1990), became very important for firms. Resource-based-view and core competence strategies suggest that in order to utilise economies of scale firms need to be more focused. To be able to focus on core competences firms are often required to divest some of their non-core activities and outsource some of their operations (Prahalad and Hamel, 1990). For example, the main motivation for many mergers and acquisitions was to buy or sell core and non-core resources (Wernerfelt, 1984). This link between the RBV and core competences and how to divest and outsource non-core operations may be most evident when analysing firms with global strategies, as the relative importance of scale advantages on the one hand, and required resources on the other, are predominantly stronger than with domestic, or even multidomestic firms.

It could be argued that at some level the concept of core competences can be linked with ownership and internalisation advantages. However, whereas internalisation-based theories emphasised the advantage of creating large internal organisations to capitalise on ownership and internalisation-based advantages, RBV-models emphasised the need to focus, thus dis-internalising many non-core activities.

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<sup>7</sup> Barney (1991) actually pointed out that in order for a company to maintain competitive advantage these resources needed to be '*valuable, rare, imperfectly imitable, and non substitutable*'.

One of the most important resources, especially in high-growth and knowledge-based industries, is human capital; that is, people with the right skills and motivation (Bartlett and Ghoshal, 2002). For example, internationalisation of MNEs' top management teams (Heijltjes et al., 2003), their attitudes towards internationalisation (Perlmutter, 1969), and their international experiences (Forsgren, 2002) can have a significant influence on companies' internationalisation strategies. However, the key role of a firm's management as a scarce and valuable resource has not been emphasised in traditional international business theories (Fahy, 2002), thus requiring more insight from strategic theories, particularly RBV. This issue was also briefly discussed in Chapter 2 in the context of criticism of traditional theories and the role of organisational learning. Also other intangible firm specific resources, such as brand may be very relevant in regard to the internationalisation process (Fahy, 2002).

#### **4.5 From Value Chains to Value Networks**

One relevant area in strategic management research, in relation to a firm's operation and organisation strategies, is studies on *value chains* and *value networks*. The concept of the value chain has been widely covered in strategy research, most notably by Porter (1985). A value chain arises from a firm's activities and internal business processes to create value for its customers (Porter, 1985). According to Porter (1985, p. 33): "*The value chain disaggregates a firm into its strategically relevant activities in order to understand the behaviour of costs and the existing and potential sources of differentiation.*" A firm then achieves competitive advantage by being cost effective and/or providing better quality products and/or services relative to its competitors in its strategically important activities (Porter, 1985). The value chain of a firm belongs to an industry value chain or system, including the value chains of its suppliers (upstream value) and buyers (downstream value) (Porter, 1985).

Although (Porter's) IO-based research has been criticised on the grounds that it did not emphasise a firm's internal resources, it could be argued that to recognise the areas in

which a firm creates most value, managers need to understand both its external environment, including industry value system and customers, and its internal resources or core competences. Thus, it can be argued, both an industrial organisation approach and a resource-based view are needed to analyse successfully, develop and manage a firm's value chain.

These issues have become even more relevant in recent discussions of value networks. Recent developments in many industries, not least due to globalisation drivers discussed in Chapter 3, have seen value chains move from vertical to horizontal, and from value chains to value networks (Li and Whalley, 2002, Sabat, 2002). The difference in the definition of value networks, when compared to the traditional definition of value chains/systems, is that in a value network there are several entry and exit points, and activities take place simultaneously instead of successively (Li and Whalley, 2002). Value networks are relevant in knowledge-based economies (Contractor and Lorange, 2002, Fjeldstad et al., 2004), and are especially successful in describing the business operations of companies such as telcos, which use mediating technologies (Fjeldstad et al., 2004). This issue will be discussed further in Chapter 6 on the internationalisation of the telecommunications industry.

One result of this development is the emergence of strategic alliances. Firms use strategic alliances to outsource some of their value chain activities (Gulati et al., 2000), to complement core competences or acquire new technologies (Hamel et al., 1989), and to achieve flexibility (Contractor and Lorange, 2002). Value networks, instead of integrated internal value chains, provide a model to describe this development and resulting industry structures. In section 4.6 strategic alliances and their role in a firm's internationalisation process will be discussed further.

Although the recent consensus view seems to be that vertical integration is ineffective and that firms should focus on their core competences, some studies have found that in many areas vertical integration (of the value chain) is still the optimal solution (Osegowitsch and Madhok, 2003). The motivations for this may have changed from minimising transaction

costs and controlling industry structures, to gaining learning benefits (Osegowitsch and Madhok, 2003). That is, it seems that in some industries the most efficient learning process still occurs within a firm's boundaries. However, these solutions seem to be industry specific (Osegowitsch and Madhok, 2003), and represent another justification for more industry and context-specific research to identify better the differences across industries in regard to vertical integration.

Although these abovementioned models were not developed to analyse internationalisation as such, they can provide a useful framework to analyse internationalisation strategies of firms. Overall, firms' activities and performance can be better understood when their networks are included in the analysis, instead of focusing only on the individual firm (Gulati et al., 2000). These models can increase our understanding on *how the position* of these companies *has changed* in the evolving value network of an industry. It could be argued that as value networks of industries are becoming more and more internationalised, this naturally extends the analysis to a firm's internationalisation. Thus, a firm in an internationalised value network will benefit greatly from its network partners' international experience and relationships, supporting the network approach of internationalisation.

#### **4.6 International Organisation Structures**

Discussions of operation modes, such as export vs. FDI-modes, have had an important role in most internationalisation theories. However, analysis of international organisation strategies/structures, although closely linked with operation strategies, has been mostly the domain of strategy researchers. It is argued here that an insight on firms' international organisation strategies and structures will help to understand better their international product, operation and market strategies, and vice versa, as these strategies are often interdependent. It will be further argued in this section that this issue is emphasised because

of global drivers, giving rise to the emergence of global organisation structures as opposed to multidomestic ones, as already briefly discussed in section 3.2

Traditionally large MNEs have been seen as a major ‘vehicle’ in international business, dominating international trade flows and investments (Bartlett and Ghoshal, 1992, Rugman, 2000). Thus, most traditional internationalisation theories, which were discussed in Chapter 2, focused on these types of firms. However, as discussed in Chapter 3, many small companies have globalised recently, and other flexible means to organise international operations, such as strategic alliances, have become more common (Dunning, 1995, Bartlett and Ghoshal, 1998, Thompson and Strickland, 2001, Contractor and Lorange, 2002). The following three sections will review the development of MNEs, and strategic alliances, and the emergence of born global companies from an international organisation strategy perspective.

#### **4.6.1 MNEs’ International Organisation Structures**

Stopford and Wells (1972) argued that the form of a MNE organisation develops in stages, starting from international, then through two alternative paths of worldwide product or international area organisation, towards a global matrix organisation. This view would also support internationalisation process theories that, as previously noted, suggest international commitments are gradually increased<sup>8</sup>. Bartlett and Ghoshal’s (1992) subsequent classification was based on Stopford and Wells’ research and defined four different types of MNEs: *international*, *multinational*, *global*, and *transnational*. These depend on a company’s environment and the development phase in which it operates.

Using Bartlett and Ghoshal’s (1992, , 1998) classification, most traditional companies export products from their domestic manufacturing plants in the early phase of their internationalisation, and are deemed to be *international*. Later, when more adaptation and

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<sup>8</sup> It must be noted though, that originally Stopford and Well’s model was not meant to be prescriptive, rather it was descriptive, as pointed out by Bartlett and Ghoshal (1998).

larger investments in host markets are required, companies apply *multinational* or multidomestic strategies, decentralising their decision-making and committing more resources internationally; that is, entering foreign markets with direct investments. However, as globalisation development accelerates, many companies transfer to *global* companies with standardised strategies across different country organisations, and centralised organisation forms (see also discussion on global strategies in Yip, 1989). This pattern was especially evident in the electronic manufacturing industry, with many Japanese MNEs introducing global strategies.

The fourth organisational structure in Bartlett and Ghoshal's (1992, , 1998) definition is a *transnational* company, which combines some of the benefits of a multinational strategy and some of a global one. Although it typically utilises global enablers by sourcing resources and sharing knowledge globally, organisational decentralisation is emphasised. However, in contrast to a multinational company, these different parts are very interdependent. A transnational company consists of several competence centres, which contribute to the whole of the company (Bartlett and Ghoshal, 1992). Home country is not necessarily the centrepiece and the only source of innovation, as assets and capabilities are spread geographically. Also, information and knowledge flows not only from headquarters to subsidiaries, but also frequently between subsidiaries and back to the headquarters. That is, a transnational organisation is able to identify customer requirements in one market, use the capabilities of its organisation in another to fill these requirements, and then implement these innovations throughout its organisation (Bartlett and Ghoshal, 1992). These companies can be considered to be an integrated and interdependent network (Harzing, 2000). This is different from a global matrix organisation, described in the Stopford and Wells' model, which locates most of their functional decision making in the home country.

Due to the changes in many industries, and partly due to the counter forces to globalisation, most companies seem to have increasingly the characteristics of a transnational

company, instead of being international, multinational, or global (Bartlett and Ghoshal, 1992, Harzing, 2000). More recent studies on Bartlett and Ghoshal's typology have supported these findings (Harzing, 2000)<sup>9</sup>. It is important to note, though, that most firms seem to be located somewhere in the continuum between global integration and local responsiveness, rather than fit exactly into just one of the definitions (Harzing, 2000).

When combining findings from these studies on MNEs organisation structures, and the earlier research of Dunning (2000a) and Yip (1989) on the role of competitive drivers in firms' internationalisation, it could be argued that international and multinational/multidomestic organisations' internationalisation processes reflect those suggested by traditional process theories. However, for global and transnational organisations competitive dynamics across markets seem to become much more important. If a company implements a global strategy competition is coordinated across different country markets (Zou and Cavusgil, 1996), resulting in the situation that a company may enter otherwise unattractive international markets if they are strategically significant (Yip, 1989). Moreover, in transnational organisations knowledge transfer is emphasised, meaning that learning and strategic approaches play a relatively strong role as opposed to traditionally more important cost and transaction-based issues (Ghoshal and Moran, 1996).

Also, there is a link between multinational/multidomestic strategies and governmental drivers identified by Yip (1989), and already briefly mentioned in Chapter 3 and in section 4.3. Thus, it becomes increasingly important to include the analysis of a firm's organisation strategy in a comprehensive model of the internationalisation of a firm. Organisation and other internationalisation strategies, such as operation and market strategies, are more and more interdependent.

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<sup>9</sup> Harzing's (2000) study was based on Bartlett and Ghoshal's research, although she changed the term multinational to multidomestic, which may actually be a better term to avoid confusion due to a more general use of the word 'multinational'. Thus, for this purpose the term multidomestic will be used throughout this study, unless it refers to a specific study in which the word 'multinational' has been used.

It must be noted, though, that this typology of organisation structures is deficient because there is no mention of regionalisation, an important phenomena in international business, as discussed in Chapter 3. It could be argued that most of the regional strategies fall in between global and multidomestic, in that they seem to integrate their operations across markets within a region (a 'global' strategy), but then have local responsiveness in regard to a region ('multidomestic', or a 'multiregion' strategy). This issue could be relevant to many industries, such as in services in general, and telcos in particular, as will be discussed further in Chapters 5 and 6 respectively.

#### **4.6.2 Strategic Alliances**

As discussed already in Chapter 2, the emergence of strategic alliances challenged the traditional internationalisation theories that were based on studies of large internalised MNEs (Dunning, 1995). The alliance phenomenon has achieved new heights during the last 15 years and seems to accelerate further (Contractor and Lorange, 2002). This development is most evident in rapidly growing industries, industry transitions and environments with high uncertainties (Bartlett and Ghoshal, 1992, Contractor and Lorange, 2002). Thus, strategic alliances seem to be especially common in many knowledge intensive industries (Dunning, 1995, Contractor and Lorange, 2002). The emergence of alliances was also briefly discussed in section 4.5 on the deconstruction of value chains to value networks. In this section the discussion of international organisation structures/strategies will be expanded to include research on strategic alliances as an alternative path to MNEs internal operations, and include different forms of strategic alliances, motivations for firms to enter strategic alliances, and their implication to internationalisation process theories.

Strategic alliances can be divided into two main groups: relational contracting and equity joint ventures (JVs) (Gulati et al., 2000, Contractor and Lorange, 2002), the latter usually being more long-term alliances. Contractual agreements include R&D cooperation and long established buyer-supplier relationships (Hamel et al., 1989, Gulati et al., 2000,



Contractor and Lorange, 2002). In many traditional internationalisation process theories this finer classification of operation modes has somewhat been overlooked, as they often classified operation modes either as direct investments or as non-committed modes such as exporting, and focused less on the hybrid of operation modes and continuum in the share of ownership in different joint-venture structures and non-equity alliances. One of the exceptions was the research of Luostarinen and Welch (1990), who did include cooperation modes in their model of international operation modes.

Many researchers saw strategic alliances as opposite to old internalised and mostly manufacturing-based MNEs (Contractor and Lorange, 2002). Companies now aim to become more flexible and rapid in their actions, and dis-internalise their value-chains (Lowell and Fraser, 1999, Contractor and Lorange, 2002). In most cases, when starting to compete globally, it was the best solution for a globalising company, sometimes even an essential solution, to join forces in a strategic alliance (Ohmae, 1989a). For example, in many *high-technology industries* companies that entered into strategic alliances were more successful compared to companies that stayed alone (Contractor and Lorange, 2002).

This outsourcing of activities outside a firm's own value chain by using strategic alliances became a very common strategy for many firms (Contractor and Lorange, 2002). In some cases this development occurred because it was fashionable (Hamel et al., 1989, Bartlett and Ghoshal, 1992), but mostly it was motivated by changes in the general business environment (Contractor and Lorange, 2002), accelerated by many of the global enablers discussed already in Chapter 3. The motivations for firms to enter into strategic alliances are summarised in Table 4.1.

**Table 4-1 Motivations for Companies to Enter Strategic Alliances**

<b>Motivations</b>	<b>Researchers</b>
Scarc resources	Harrigan (1984)
Technological developments	Bartlett and Ghoshal, 1992; Dunning (1995), Contractor and Lorange (2002)
The role of innovation due to increasing R & D costs and shortened product life cycles	Harrigan, 1984; Bartlett and Ghoshal, 1992; Contractor and Lorange, 2002
Needs to develop common standards in the industry	Hamel et al., 1989; Bartlett and Ghoshal, 1992; Contractor and Lorange, 2002
Access to complementary technologies	Contractor and Lorange, 1988; Doz and Baburoglu, 2000; Contractor and Lorange, 2002
Political and regulatory changes; for example, the WTO: codification of knowledge and improved IP laws decrease the need for internalisation, thus facilitating the emergence of alliances.	Bartlett and Ghoshal, 1992; Dunning, 1995; Contractor and Lorange, 2002
Host government regulations; for example, in some countries/industries government's require local ownership and also encourage cooperation in R&D	Contractor and Lorange, 1988; Doz and Baburoglu, 2000; Contractor and Lorange, 2002
Requirements to serve customers better	Lowell and Fraser, 1999
Convergence of industries	Bartlett and Ghoshal, 1992; Dunning, 1995
Significant capital requirements in certain industries	Harrigan, 1984
Risk reduction	(Contractor and Lorange, 1988; Gulati et al., 2000; Contractor and Lorange, 2002)
Gain benefits from combining network relationships of the strategic alliance partner	(Dyer and Nobeoka, 2000)
More globalised competition	Bartlett and Ghoshal, 1992; Dunning, 1995
* Pre-emptive moves to secure access to markets, supplies, distribution, and technology, and to block the access of competitors	(Harrigan, 1984; Contractor and Lorange, 1988; Hamel et al., 1989; Contractor and Lorange, 2002)
* Reduce the competitive threat and pressure (including collaboration with competitors, rather than competing head - to-head)	(Hamel et al., 1989; Contractor and Lorange, 2002)
* To achieve presence in all triads rapidly	(Bartlett and Ghoshal, 1992)

Some of these motivations can also be linked to Knickerbocker's (1973) findings of first mover advantages in oligopolistic industries, and to other findings on the importance of competitive and strategic motives (Yip, 1989, Dunning, 2000a), and the importance of government factors (Yip, 1989) to internationalisation, as discussed earlier in Chapter 3.

The motivations to enter into strategic alliances may be especially strong for internationalising companies with limited resources and/or inexperienced firms, as alliances

help fill the gaps in their capabilities and share risks, thus enabling global expansion at a reasonable cost and risk level (Harrigan, 1984, Contractor and Lorange, 1988, Ohmae, 1989a, Bartlett and Ghoshal, 1992, Gulati et al., 2000). For example, many smaller companies are able to challenge the dominant industry leaders by forming alliances with each other (Bartlett and Ghoshal, 1992). This allows these companies to achieve the necessary scale that may not be possible using internal resources alone (Dunning, 1995, Bartlett and Ghoshal, 1998, Dunning, 2000a, Gulati et al., 2000).

Alliances challenge the traditional theories in many areas. For example, transaction cost and internalisation theories that were based on the assumption of opportunism overlooked the role of cooperation and trust in strategic alliances (Hill, 1990, Dunning, 1995). For instance, based on traditional theories, firms in industries with high asset specificity and thus high risks of facing opportunistic behaviour, favour internalisation (Hill, 1990). However, in environments supporting alliance formation it is actually the opposite, as many firms may be more active in participating in alliances when asset specificity is high (Hill, 1990). This may be related to the risk factors listed above, especially in the case in which alliance partners are companies with limited resources.

Also, relationships, networks and reputation, and their influence in firms' development in the long-term, are issues that were often neglected in traditional theories (Hill, 1990, Gulati et al., 2000). Thus, it could be argued that alliances as an operation mode can be linked with the findings of the network approach of internationalisation, which emphasised the role of external relationships to a firm's internationalisation. Also, the transformation from value chains to value networks discussed in section 4.5 provides insight to the motivation and formation of strategic alliances.

### **4.6.3 Born Global Companies**

Another recent challenge to traditional international theories, which was also briefly introduced in Chapter 2, is the emergence of born global companies. This new type of

company has accompanied traditional MNEs as players in international markets (Jolly et al., 1991, Rennie, 1993, McDougall et al., 1994, Knight and Cavusgil, 1996, Autio et al., 2000). In general, the same global enablers which have had an influence on larger MNEs, and were covered in Chapter 3, have also accelerated the pace of internationalisation for born global companies (Laanti et al., 2007). Although this phenomenon has been mostly covered by international business scholars, a brief discussion of these companies will be included in this chapter to complement the review of firms' international organisation strategies (and operation modes).

As a definition, born global companies are small and medium-sized firms, which start their internationalisation from inception (Rennie, 1993, McDougall et al., 1994, Knight and Cavusgil, 1996). They aim to achieve a competitive advantage by spreading their sales to several international markets rapidly (Oviatt and McDougall, 1994).

Born globals have followed a very different logic in their product, operation, or market patterns than defined in traditional internationalisation process models (Rennie, 1993, Knight and Cavusgil, 1996, Luostarinen and Gabrielsson, 2004). For example, they enter distant markets more rapidly and may also start with more committed operation modes than traditional models suggest (Rennie, 1993, Knight and Cavusgil, 1996, Laanti et al., 2007). Often their product strategies are based on a niche strategy. In regard to their operation modes, some born globals have established regional hubs from which they then serve individual country markets in that region, rather than entering each market with their own operation modes (Laanti et al., 2007). This can be a result of limited resources, but also partially support theories of regionalisation discussed in Chapter 3.

In addition to general global enablers, the main reason that these companies have been able to internationalise so rapidly is that although as organisations they were young, they often possessed resources through their founders, which originate in time prior to their establishment, and through networks beyond their boundaries (McDougall et al., 1994,

Madsen and Servais, 1997, Sharma and Blomstermo, 2003, Laanti et al., 2007). For example, the founders often had extensive international experience and networks from their previous jobs, resulting in less uncertainties and more rapid internationalisation processes (Laanti et al., 2007). This issue and the role of individuals and firms' resources more generally, were partly overlooked in the traditional theories based on the concept of organisational learning and incrementalism. RBV can bring valuable insights into the internationalisation of these types of companies, as has been emphasised by many born global researchers (Knight and Cavusgil, 1996, Crick and Jones, 2000, Moen and Servais, 2002, Jones and Coviello, 2005, Laanti et al., 2007). Also, the network approach, and research on value networks and strategic alliances seem to provide explanations and tools to analyse the internationalisation of born globals (Gulati et al., 2000, Sharma and Blomstermo, 2003).

When analysing the organisation structures of born globals by using the terminology discussed earlier, it could be argued that as a definition, they approach the world as one market, thus not justifying multidomestic strategies. Some born global companies that focus on exporting their products physically or online and have all their operations in a home country, could be classified as international, whereas others who enter international markets with committed operation modes, are often global in their approach. That is, they perceive the world as one market and decision making is centralised. In addition to proceeding faster in regard to their internationalisation process, they also enter rapidly into a more advanced global organisation structure. One way for them to achieve this is to implement a niche strategy, which in most cases requires strategic alliances in supportive products and systems, as the findings of the studies of born globals and the role of their networks demonstrate.

Although this study does not focus on SME companies, some findings from born global research may offer an insight when analysing the internationalisation of larger established companies, especially in high growth and/or knowledge intensive industries and/or companies from smaller countries.

## **4.7 Summary**

It has been argued in this chapter that both the IO-based theories and the RBV are important to include in the analysis of the internationalisation of a firm. This industry and company specificity complements and extends the theories of internationalisation that have sometimes been criticised for being too deterministic.

In addition, it was demonstrated that the concepts of value chain and value networks have gained importance, especially in some high-growth and knowledge-based industries, and can help in explaining the operation strategies and organisation strategies of internationalising firms.

It was also argued that the analysis of MNEs organisation structures/strategies can provide an insight to firms' internationalisation processes, but that this is not sufficient without the inclusion of other recently emerged forms of international operations and firms, such as strategic alliances and born global companies.

Overall this chapter has elaborated on the complexity of the internationalisation process of a firm by emphasising the importance of industry specific and company specific factors in the analysis, and also provided concepts for this analysis that can be integrated to a comprehensive framework of the internationalisation of a firm. The next chapter will discuss the internationalisation of services.

## **5 Review of Literature on Service Internationalisation**

### **5.1 Introduction**

In this chapter some of the key issues on internationalisation processes identified in the previous chapters will be explored further within the context of service industries. First, a brief background to the increasing role of services in the world economy is provided together with a discussion of the still relatively limited role of services in international business research. Gaps in the existing research are identified and the need for additional research into the internationalisation of services justified. Service characteristics and the different classification models are also discussed. This is followed by a more in-depth discussion of the internationalisation processes of service firms from the perspectives of different service sectors, including an analysis of the influence of service characteristics and other factors on their internationalisation. Finally, the internationalisation of a special type of capital-intensive service industry, namely network industries, will be reviewed.

It will be argued that in many cases the internationalisation patterns of services are different from that of manufacturing industries. It will also be noted that services are heterogeneous, requiring more specific studies on service internationalisation in different service sectors. Several factors contributing to these deviations will also be reviewed. In network industries capital-intensity, government factors and network externalities will be identified as the most important factors contributing to their internationalisation.

### **5.2 Increasing Role of Services in International Business Research**

The importance of international services in the world economy has increased rapidly over the last few decades (Clark et al., 1996, Grönroos, 1999, Samiee, 1999, Aharoni and Nachum, 2000, Contractor et al., 2003, Javalgi et al., 2003). This growth accelerated especially after an increased emphasis was placed on services in the Uruguay Round of the GATT negotiations in 1993, and the subsequent lowering of trade barriers for services (Clark et al., 1996, Grönroos, 1999, Samiee, 1999, Aharoni and Nachum, 2000, Bryson, 2001,

Javalgi et al., 2003). Service sector firms are already the biggest employers in developed countries and their role in international trade is expanding rapidly (Roberts, 1998). Also, the role of services in world FDI is increasing significantly (UNCTAD, 2004). This has been most evident in infrastructure/intermediate services, the sectors whose importance to a country's economy exceeds their direct revenue impact as these services are often necessary to other industries (UNCTAD, 2004).

Despite the importance of the service sector in the world economy today, many researchers (Erramilli and Rao, 1993, Lovelock and Yip, 1996, Clark and Rajaratnam, 1999, Knight, 1999, Kundu and Contractor, 1999, Bryson, 2001, Westhead et al., 2001, Javalgi and White, 2002, Cardone-Riportella et al., 2003, Javalgi et al., 2003, Bouquet et al., 2004) have argued that existing theories on internationalisation are still largely based on the experience of manufacturing companies. As discussed in Chapter 2, most traditional theories and models on internationalisation were developed mainly between the 1960s and 1990s. These theories, which were based on empirical data on manufacturing companies, have been invaluable in analysing early internationalisation developments and have offered a base to extend the research on internationalisation to include companies other than manufacturing ones. However, as mentioned above, most service industries started to internationalise later than manufacturing industries and have therefore not been fully reflected in these early theories and models.

Although more research on internationalisation of services has emerged during the last couple of decades (Erramilli, 1990, 1991, Erramilli and Rao, 1993, Grönroos, 1999, Knight, 1999, Samiee, 1999, Aharoni and Nachum, 2000, Bryson, 2001), its impact on theory development does not yet match the relative importance of service industries in the world economy (Clark and Rajaratnam, 1999, Contractor et al., 2003), and there are obvious gaps in the literature. Too little conceptual and empirical research has been conducted on the internationalisation of services (Majkgård and Sharma, 1998, Winsted and Patterson, 1998,



Knight, 1999, Contractor et al., 2003, Blomstermo et al., 2006). New research is required due to the uniqueness and context specificity of services (Javalgi and White, 2002).

While some service MNEs are similar to manufacturing MNEs others vary significantly (Aharoni, 1996). As a result, the traditional internationalisation models have not been able to explain all the variations in the internationalisation process of service companies (Akehurst and Alexander, 1995, Winsted and Patterson, 1998, Knight, 1999, Javalgi et al., 2003). For example, Aharoni (1996) argued that the omission of service companies in the development of the 'stages models of internationalisation' was a major challenge to the model. This omission is further emphasised as the rapid development of technology, especially in information-intensive service industries, requires more dynamic models to explain service internationalisation (Roberts, 1998). Thus, future research should continue to investigate the process of internationalisation in service industries, a view expressed also by several other researchers (O'Farrell and Wood, 1994, Javalgi and White, 2002, Contractor et al., 2003, Blomstermo et al., 2006).

Generally, services are not homogeneous in relation to their internationalisation strategies (Roberts, 1998, Knight, 1999, Contractor et al., 2003, Bouquet et al., 2004, Blomstermo et al., 2006). Thus, to understand better the internationalisation strategies and whether they are context specific, research should be more focused on specific industries or industry categories (Clark et al., 1996, Roberts, 1998, Westhead et al., 2001, Fjeldstad et al., 2004). Addressing this need, some of the recent research on the internationalisation of services has covered individual service sectors and categories. For instance, there are studies illustrative of business services (O'Farrell and Wood, 1994, Roberts, 1998, , 1999, Nachum, 2000, Westhead et al., 2001, Javalgi et al., 2003, Blomstermo et al., 2006), whereas others have focused on the education sector (Baume, 1999, Baume and McDougall, 1999), hospitality and tourism services (Dunning and Kundu, 1995, Alexander and Lockwood, 1996, Baume and McDougall, 1999, Kundu and Contractor, 1999, Contractor and Kundu, 2000),

retail services (Akehurst and Alexander, 1995, Simpson and Thorpe, 1995, Quinn, 1999, Rugman and Girod, 2003, Wrigley and Currah, 2003, Leknes and Carr, 2004, Palmer, 2006), and financial services (Boldt-Christmas et al., 2001, Cardone-Riportella et al., 2003). Some of these researchers found several context-specific idiosyncrasies in the internationalisation strategies of the individual service sectors studied (Akehurst and Alexander, 1995), but also some similarities with the findings of earlier research into the internationalisation processes of manufacturing companies. For example, Lovelock and Yip (1996) argued that models based on manufacturing industries were also relevant to services, even though they are different in a number of important aspects. Roberts (1998), in her research on UK-based business services, found support for incremental process and stages theories, but reported also some deviations. Despite these studies, it is still unclear whether internationalisation theories developed for manufacturing companies also apply to service companies (Knight, 1999, Javalgi and White, 2002, Bouquet et al., 2004), especially in less studied service sectors. It will be argued in this thesis that certain elements do apply, but in many cases services are different in their internationalisation strategies.

As Lovelock and Yip (1996) and Fjeldstad (2004) argued, it would be more useful for researchers first to comprehend the different factors influencing the internationalisation processes in one service industry, or one set of service industries, before attempting to generalise about internationalisation among all services. Moreover, although there seems to be several factors affecting the internationalisation of different industries, it is recognized that some of these factors could be the same among certain categories of service industries (Samiee, 1999). This supports Erramilli's (1990) call for research which would continue the classification of services into more homogeneous groups. For example, network industries with similar business logic could be such a group. This theme will be discussed later in section 5.6

In summary, it seems that research results (so far) suggest that there are variations in the internationalisation patterns between manufacturing and service industries, as well as across different service sectors. This may be the result of distinctive service characteristics, which will be discussed more thoroughly in the following section.

### 5.3 Service Characteristics

The internationalisation of service companies is a more complicated process than that of manufacturing companies, and studies have reported several different service characteristics that have contributed to this (Winsted and Patterson, 1998, Knight, 1999, Bryson, 2001). In Table 3.1 characteristics which differentiate services from manufacturing industries are illustrated.

**Table 5-1 Service Characteristics**

<b>Service characteristics</b>	<b>Definition (Knight, 1999)</b>	<b>Researchers</b>
<b>Intangibility</b>	Products are 'performances' in opposite to physical goods Cannot be touched, transported or stored	Boddewyn et al (1986), Erramilli (1990), Enderwick (1992), Clark et al. (1996), Lovelich and Yip (1996), Winsted and Patterson (1998), Knight (1999), Javalgi et al. (2003)
<b>Inseparability</b>	Production cannot be separated from consumption	Erramilli (1990), Enderwick (1992), Winsted and Patterson (1998), Knight (1999), Javalgi et al. (2003), Lovelock and Yip (1996)
<b>Heterogeneity</b>	Unlike most physical products, no one service performance is identical to another. Services are often customized.	Erramilli (1990), Enderwick (1992), Winsted and Patterson (1998), Knight (1999)
<b>Perishability</b>	Cannot be stored – Must be consumed at the time they are produced.	Erramilli (1990), Enderwick (1992), Lovelock and Yip (1996), Winsted and Patterson (1998), Knight (1999)
<b>Persistence of international differences</b>	Services are often people-centered, thus prone to culture.	Clark et al. (1996), Knight (1999)

The above mentioned characteristics help to explain why most service companies face additional challenges in their internationalisation. For example, some operation modes common in manufacturing sectors, such as exporting, may not be feasible due to intangibility

and inseparability of a service product (Erramilli, 1990, Javalgi et al., 2003). These issues will be discussed in section 5.5 on internationalisation processes of service companies.

However, as noted earlier, service sectors are seldom similar and these characteristics do not appear without exception in every service sector. This causes variations in the internationalisation patterns across the different sectors (Erramilli, 1990, Lovelock and Yip, 1996). Thus, it has become necessary for researchers to understand how service characteristics influence different service sectors, when analysing the internationalisation processes of service companies.

#### **5.4 Classification of Services**

Lovelock and Yip (1996) argued against trying to apply the same models to every service sector but also against trying to focus only on one industry at a time. Rather, they suggested services should be categorised based on their operational processes and business logic. Also, Clark and Rajaratham (1999) believed that classification of services could be the basis for the development of several different but interrelated models of internationalisation. This would address both the requirements for more conceptual and theory-based research that would generalise across service sectors (Knight, 1999), and the arguments that the services are so context specific that it may be difficult to develop theories which apply to all services (Clark et al., 1996). Thus, research on the internationalisation of services has led to the classification of services, based on their business logic rather than on their industry only. This section focuses on the classifications used in service research.

Researchers have used several classifications for services: Boddewyn et al.'s (1986) three categories of *foreign-tradable services*, *location bound-services*, and *combination services* were based on intangibility and/or the role of a customer in the process; Vandermerwe and Chadwick's (1989) classification system included six categories based on the level of interaction between customer and service supplier, and of the delivery method of

the services; that is, the degree services are delivered through goods; Erramilli 's (1990) *hard-* and *soft-services*; Lovelock and Yip's (1996) three categories of *people-processing services*, *possession-processing services*, and *information-based services*, which also are based on tangibility or intangibility of the service, and on the level of customer involvement; and Clark et al.'s (1996) *contact-based services*, *vehicle-based services*, *asset-based services*, and *object-based services*. All these categories are largely based on service characteristics covered in the previous section.

Perhaps the most widely noted classification is Erramilli's (1990) hard- and soft-services. He argued that hard-services, in which services are embedded in goods, such as music in a CD format, could in many cases be compared to manufactured goods in their internationalisation, but that soft-services, such as a concert with intangible service characteristics, could differ substantially as exporting is often not possible for these services.

In Clark et al.'s (1996), and Clark and Rajaratham's (1999) classification scheme, contact-based services require interaction of service personnel with the customers and included services such as project management, whereas vehicle-based services were television and radio transmissions, and computer services. Asset-based services included retail banking, hotels, and other capital-intensive sectors, whereas object-based services included computer software, video cassettes and also air transportation, at some level similar to Erramilli's hard-services. Barriers to internationalisation for these different types of services vary based on their classification. For instance, in contact-based services, mobility of people is an issue, whereas in asset-based services foreign investment policy of a host government is an important factor.

Boddewyn et al.'s (1986) foreign-tradable services are similar to Erramilli's definition of hard-services; that is, they are separable, such as financial loans, whereas location-bound services, such as hotel accommodation, require a service facility in a close proximity with customers. In combination services part of the process is location-bound and another part

tradable, for example, remote computer data processing. Boddewyn et al. argued against the applicability of the traditional comparison between exports and FDI for location-bound and combination services.

In the rest of this thesis the following three classifications will be the major focus of the analysis: Erramilli's classification as the most referred service classification is very relevant to analyse international operation strategies; and Clark et al.'s and Boddewyn et al.'s classifications, which both include elements that emphasise capital-intensive infrastructure services. Interdependencies between service characteristics, service classifications and internationalisation strategies of services are discussed in the following section.

## ***5.5 Internationalisation Strategies of Service Companies***

In this section, internationalisation processes of service companies will be discussed from the perspectives of their international product, operation, market and organisation strategies, and the factors influencing them. When analysing internationalisation processes of manufacturing firms (Luostarinen, 1979, Luostarinen and Welch, 1990, Luostarinen, 1994) (see also discussion in section 2.4.1), and business services (O'Farrell and Wood, 1994, Roberts, 1998), researchers have argued that these four sub-strategies often overlap and are closely integrated. Before proceeding to review each sub-strategy, it is useful to discuss briefly service internationalisation processes in general.

As already mentioned in the previous sections, several studies have found deviations in how service companies internationalise when compared to manufacturing companies. Researchers argued that the models are not generalisable as such to all service firms, and there are significant idiosyncrasies between firms in different service sectors. There is no doubt that these idiosyncrasies between different service categories result in differences in their internationalisation processes (Vandermerwe and Chadwick, 1989, Lovelock and Yip, 1996, Bouquet et al., 2004). The processes for service companies are much more complex

than for manufacturing companies (Knight, 1999). Some categories may internationalise in a similar way to manufacturing companies, especially when services are embedded in goods, as in hard-services (Erramilli, 1990) or object-based services (Clark et al., 1996). On the other hand, some categories may require very committed operation modes at the early phase of internationalisation, as people-possessing services (Lovelock and Yip, 1996), location-bound services (Boddewyn et al., 1986), contact-based services, or asset-based services (Clark et al., 1996).

Business services, such as advertising, accounting, computer service, law, management consulting, and financial service companies, started to internationalise rapidly in the 1980s and especially in the 1990s, triggering an increasing level of research (Aharoni, 1996, Roberts, 1999). Roberts' (1998, , 1999) valuable and comprehensive study on internationalisation processes of business service sectors included an analysis of product characteristics, international operation modes and market entries, and international organisation structures. Although her study was limited to one home country, the UK, and focused only on information-intensive/knowledge-based business services, it provided a useful framework to analyse other services.

Roberts (1998) found that although there were differences in the internationalisation patterns of typical business service companies when compared to typical manufacturing ones, they also shared many similarities. She actually argued that business services also internationalise in stages, even though the stages and the pace of internationalisation may vary. For example, the process may start slow, but end up being much more rapid and with a higher overseas presence than in the case of manufacturing industries. In addition, she found some changes in the patterns over time with processes more gradual up to the 1970s, and then much more rapid. This supports the findings discussed in Chapter 3 on the influence of globalisation developments on firms' internationalisation processes across industries.

Some researchers have analysed services depending on whether they follow ‘market-seeking’ or ‘client-following’ strategies in their internationalisation, emphasizing the importance of close customer relationships (Majkgård and Sharma, 1998, Cardone-Riportella et al., 2003). These strategies, where companies follow their domestic industrialised customers internationally, have been reported to be a major contributor to faster internationalisation processes in business services (Aharoni, 1996, Roberts, 1998). It can be argued that when a company follows its existing customers overseas this decreases uncertainties in the process, thus also decreasing lateral rigidity towards internationalisation.

In Chapter 3 Dunning’s (2000a) findings of different motives for FDI (market-seeking, resource-seeking, efficiency seeking, and strategic-asset seeking) and Yip’s (1989) four groups of industry globalisation drivers (market, cost, competitive, and government factors), were reviewed. These concepts provide a useful theoretical background to analyse general global factors and industry specific factors that have an influence on firms’ internationalisation strategies. However, in their market-seeking FDI activities/market factors they did not distinguish between market-seeking and client-following strategies. Thus, studies of business service internationalisation discussed above seem to be more sophisticated in this perspective and contribute to internationalisation theory by complementing these earlier studies. It can also be argued that the existence of client-following strategies in services supports the findings of the network approach and the importance of firms’ relationships to their internationalisation, a concept already discussed in Chapter 2.

### **5.5.1 Product and Operation Strategies**

When analysing further the international operation strategies of services it is necessary to link product strategies to the discussion, as (with regards to services) these two sub-strategies are very closely integrated. There are few (traditional) studies on manufacturing firms’ internationalisation processes that have emphasised product strategies in their model. The ones who did (Luostarinen, 1979, Luostarinen and Welch, 1990,



Luostarinen, 1994), found some evolutionary stages in how the international product strategies developed from a simple export of goods to more sophisticated product portfolios which complemented goods with services and systems. However, in service internationalisation the analysis of product strategies is very relevant, arising from different service characteristics and their strong influence on internationalisation processes (Lovelock and Yip, 1996, Bouquet et al., 2004), as discussed earlier. That is, the main arguments that emphasise the difference between services and manufacturing companies are based on service characteristics, introduced in section 5.3. Thus, the nature of a service product and possible changes in product strategies over time can be significant predictors of the international entry mode choices for service companies (Simpson and Thorpe, 1995, Ekeledo and Sivakumar, 2004).

The main assumption in many studies on service internationalisation is that most services are non-tradable and location-bound (Boddewyn et al., 1986, Dunning, 1989). This is due to intangibility, inseparability and perishability, meaning that in most cases it is not possible to export services. This results in a need to start the process of internationalisation with direct operation modes, FDIs (Boddewyn et al., 1986, Erramilli, 1990, 1991, Erramilli and Rao, 1993, Grönroos, 1999, Knight, 1999, Brouthers et al., 2002, Ekeledo and Sivakumar, 2004). These non-tradable services are the ones defined as soft-services by Erramilli (1990). Similar findings on systematic differences between hard- and soft-service sectors in regard to their internationalisation have lately been confirmed in several other studies (Ekeledo and Sivakumar, 1998, Blomstermo et al., 2006).

Moreover, when compared to manufacturing companies, the investments that service companies need to make when entering international markets are often relatively small, as the nature of services is people-intensive, rather than based on large fixed assets; that is, they are less capital-intensive (Dunning, 1989, Erramilli, 1991, Erramilli and Rao, 1993, , 1996, Roberts, 1998, , 2002, Bouquet et al., 2004). Thus, the costs and perceived risk levels in most

services are much smaller (Erramilli, 1991, Brouthers et al., 2002, Brouthers and Brouthers, 2003). This has made it easier for service companies to enter international markets rapidly with committed operation modes, even with limited financial resources (Erramilli, 1991, Roberts, 1999, Brouthers and Brouthers, 2003, Javalgi et al., 2003). However, it needs to be noted that this may not hold when analysing network industries and other capital-intensive and asset-based service sectors, an issue that will be discussed in section 5.6.

Many services are also very knowledge intensive, especially business services (Dunning, 1989, Roberts, 1998). This characteristic motivates services companies to prefer high control modes in their international operations, as they need to protect their knowledge-assets, while at the same time gain full advantage of their use (Roberts, 1998, Contractor et al., 2003). This issue may be one of the main reasons why FDI is the preferred entry mode for business services (Roberts, 1998). These findings can also be linked to the ownership and internalisation advantages discussed in Chapter 2. In addition, as many knowledge-based services are business ones they rely heavily on ‘client-following strategies’. This combination of a need to control and relatively lower uncertainty to enter foreign markets makes internationalisation with committed operation modes attractive to many service sectors (Roberts, 1998, Contractor et al., 2003).

From a service company’s customers’ point of view intangibility and heterogeneity of the product creates uncertainties. Thus, the importance of brand image and reputation for service companies may be greater than for providers of physical goods (Aharoni, 1996). Correspondingly, this may be another factor why service firms require more integrated operation modes internationally; that is, they need to protect and nurture their brand in international markets (Aharoni, 1996). In addition to the findings from business service sectors, Dunning and Kundu’s (1995) study of the hotel industry emphasised the importance of ownership advantages such as brand image, staff training, and domestic customer relationships as factors contributing to more committed operation modes.

However, as mentioned earlier, services are heterogeneous. Not all services are non-tradeable services that require high committed operation modes from the start (Dunning, 1989, Dahringer, 1991, Erramilli and Rao, 1993, Roberts, 1998). As also mentioned earlier, hard-services are similar to goods and their internationalisation seems to follow evolutionary patterns similar to those of manufacturing companies (Roberts, 1998). That is, for these services export is a feasible operation mode to start their internationalisation processes.

In addition to embedding services in goods, such as a letter/report/diskette, many originally soft-services can be delivered in other forms, such as personal travel (transhuman exports) and/or online (Roberts, 1998, Blomstermo et al., 2006). All of these activities are relatively common in business services, such as architectural planning. It could be argued that these alternative operation modes have become more common due to global technology drivers, such as improved communications and transportation, discussed in Chapter 3. Thus, it should not be assumed that all these types of services are automatically non-tradable. In fact, Dahringer (1991) and Roberts (1998) went so far as to argue that all services can be 'exported' if provided to international customers in home markets; that is, domestically located service exports such as legal services. Following these findings, Roberts (1998) argued that internationalisation process models can explain the internationalisation of hard service firms, but also many soft-service firms which are able to adapt their services to be embedded in goods or delivered in alternative forms. Thus, it can be argued, that the differences between manufacturing, hard-service and soft-service firms are rather of degree than kind (Blomstermo et al., 2006).

In spite of these findings there are still several soft-service sectors in which these other forms of service delivery may not be a feasible solution. As already mentioned, knowledge-intensive services often prefer committed operation modes for other reasons than their products' tradability. Moreover, asset-based capital-intensive services and location-bound services, and some people-intensive services are not easily tradeable. For example,

hotels and hospitals require local proximity of service providers and service buyers (Blomstermo et al., 2006).

However, whereas for knowledge-intensive services high-committed operation modes are often the obvious choice influenced by several factors discussed above, for capital-intensive services there are also significant counter forces (Sanchez-Peinado and Pla-Barber, 2006). High investment-levels in the latter group increase significantly the risks and uncertainties involved. This creates a dilemma for the internationalisation of these types of companies. For example, with increased psychic distance and country risk, knowledge-based firms still prefer higher-control operation modes, whereas capital-intensive firms look for other more flexible operation modes (Sanchez-Peinado and Pla-Barber, 2006). It must be noted, though, that capital-intensive services also try to maintain strict control of their most important commercial assets, such as brand and reservation systems in the hotel industry (Contractor et al., 2003). These findings can be linked with Erramilli and Rao's (1993) study in which they classified services based on their asset-specificity, from low-specificity to high-specificity firms, and found that initially both types of firms prefer high control modes. However, if the costs of integration increase significantly, the low-specificity firms start looking for shared-control modes. They argued that with higher capital-intensity of a service, the differences in entry mode decisions between these two types of services increase further. Evidence of this can also be found in the study of Bouquet et al. (2004), who found that fully-owned subsidiaries are more common in more knowledge-based financial services, than in wholesale, retail, or manufacturing sectors.

At this point in the discussion it can be observed that there are many other possible operation forms than just exports and/or FDI, a fact often underemphasised in many international trade and MNE theories, and also in many internationalisation process studies (Dunning, 1995, Roberts, 1998, Contractor et al., 2003). This observation was also discussed earlier in Chapters 2 and 4 in regards to the increased role of cooperation modes such as

alliances. Overall, there are more variations in international operation modes of services companies, when compared to manufacturing companies (Dunning, 1989, Roberts, 1998). The operation forms can also be a continuum between the two extremes of exports only and fully-owned subsidiaries. Operation modes such as strategic alliances, partial ownerships/joint ventures, licensing/franchising, and management contracts have been very common in service sector internationalisation (Dunning, 1989, Vandermerwe and Chadwick, 1989, Aharoni, 1996, Roberts, 1998, Bryson, 2001, Contractor et al., 2003, Ekeledo and Sivakumar, 2004). For example, in the hotel industry many of the benefits of FDI can be achieved by using management contracts and other non-equity cooperation modes (Dunning and Kundu, 1995, Contractor et al., 2003). Some of these modes, such as franchising, are almost unique to services (Javalgi et al., 2003). Interestingly, Petersen and Welch's (2000) study reported a reversal pattern of internationalisation in which retailers started with high committed modes, such as subsidiaries, to establish a presence in target markets, and then later moved towards less committed modes, such as franchising. One of the main reasons for this was learning benefits. It must be noted, though, that shared-control modes are least feasible in service sectors with high human capital intensity (Bouquet et al., 2004). Also, a distinction needs to be made between different high control modes. For instance, for an on-site production facility the cost of investment is significantly higher than for an operation established only as a service delivery system (Lovelock and Yip, 1996).

Moreover, studies have reported variations in internationalisation patterns also within service sectors. Clark et al. (1996), who focused mainly on contact-based services in their study, noted that there are situations when a company may select from many different operation modes in their internationalisation. Also Dunning and Kundu (1995) and Contractor and Kundu (1998), in their studies on the hotel industry, found that although management contracts were the most common operation mode, also fully owned subsidiaries, shared modes, and franchising contracts were all very commonly used. That is, firm-specific factors, such as international experience of a firm, and control of a brand, a reservation system,

domestic customer relationships and other strategic assets, had a significant influence on internationalisation patterns of hotel companies (Dunning and Kundu, 1995, Contractor et al., 2003). On the other hand, Blomster et al. (2006) found that contrary to traditional internationalisation models, international experience did not result in more committed operation modes for soft-services, but increase in psychic distance did. All these factors can be linked to a firm's resources and supports Ekeledo and Sivakumar's (2004) recommendation to include strategy concepts such as the RBV to further analyse the role of firm-specific factors in non-separable services' international entry mode decisions.

Another specific area with regards to product strategies and their influence on operation strategies in services is the scope of the product portfolio. For example, Simpson and Thorpe (1995) argued that in the retail sector this issue seems to be a very relevant contributor to other internationalisation strategies. Retail firms with a strong image and a niche strategy, such as The Body Shop, Laura Ashley or the Gap, were able to internationalise more rapidly and with greater geographical scope than less focused retailers<sup>10</sup>. This link between a niche strategy and rapid internationalisation was also evident in the case of many born global firms, as discussed in Chapter 4.

In summary, service researchers have identified several factors that contribute to a more rapid and committed international entry modes, but many factors also limit the process to a traditional gradual one, or even a more cautious one than that of manufacturing companies. There is a strong link between product and operation strategies, with a product often being a significant factor for other strategies. Also, there is evidence of product strategies being dynamic and in some situations adapted to make internationalisation more feasible. Services are very different and, thus there is a need to understand service characteristics and classifications. For instance, capital-intensive services are special types of

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<sup>10</sup> It is questionable, though, if these firms can be classified as pure service firms, as the production and sales of their own branded goods plays an important part in the business model.

services which can not be exported and for whom investment risks are very high. This causes a dilemma, which will be discussed further below in section 5.6.

### **5.5.2 Market Strategies**

With regards to market strategies the concept of psychic distance has been a key factor in traditional internationalisation theories, although more recently studies have reported irregularities in the patterns and even psychic distance paradox, as discussed in Chapter 2. As is the case with other elements of internationalisation strategies, there also seems to be significant inconsistencies in the market strategies of different service sectors. Some service sectors have followed the incremental patterns that the traditional theories suggest, some even seem to be more cautious in their approach, whereas for others the deviations have been significant.

It seems that some service sectors, such as people-centred services or contact-based services, are especially sensitive to cultural factors at the early phase of their internationalisation (Erramilli, 1991, O'Farrell and Wood, 1994, , 1999, Knight, 1999). Also, researchers have found support for the concept of psychic distance in many consumer-based services, such as retail, banking and financial services (Akehurst and Alexander, 1995, Hellman, 1996, Lovelock and Yip, 1996, Fuentelsaz et al., 2002). Similarly, some studies on business services, such as advertising, law, and accounting, have reported that cultural distance plays an important role in their internationalisation (Erramilli, 1991, O'Farrell and Wood, 1994, Roberts, 1999). Moreover, many consumer and business services tend to face high income elasticity in regard to demand (Dunning, 1989), which further limits the choice of target markets for service companies. That is, market similarity has been an important factor for the internationalisation of these types of services (O'Farrell and Wood, 1994). For many business services target markets may be limited to developed markets only (Roberts, 1998). Related findings have been reported when analysing similarities across different target markets more specifically. For example, language may be either a competitive advantage or a

very significant barrier for a business service and/or contact-based service firm, depending on its country of origin (Roberts, 1998, Clark and Rajaratnam, 1999, Westhead et al., 2001). Thus, it could be argued that for many service sectors the traditional process models are applicable for their market strategies, and in some cases psychic distance can play even a greater role in their internationalisation than for manufacturing companies.

However, it could also be argued that although the first market entries of business services have targeted culturally close countries, the process has been more rapid largely due to follow-the-customer strategies and, as a result, involving relatively low investment and uncertainty levels (Terpstra and Yu, 1988, O'Farrell and Wood, 1994, Aharoni, 1996, Roberts, 1998, Bryson, 2001). In this perspective the role of psychic distance may have diminished, as the companies have been able to enter several markets very rapidly (Roberts, 1999). Also, for these companies the pressures to internationalise may have been greater, as they were required to operate in countries where their customers have established operations (Aharoni, 1996). That is, some of their strategies may be defensive in nature. To understand better the internationalisation of business services, it becomes important to identify if they are market-seekers or client-followers, as argued by Erramilli (1990) and Majkgård and Sharma (1998)<sup>11</sup>. It could be argued that in these types of cases the network approach would better predict the internationalisation of services than traditional process theories. That is, service providers may be able to implement global strategies more rapidly when their customers already are global.

In spite of the above findings that for many service sectors psychic distance plays an important role in internationalisation, there are other studies that have found contrasting results. For example, Evans and Mavondo's (2002) study on retail companies found that many retailers from developed countries targeted especially less developed emerging markets in Eastern Europe and Asia, as these markets offered significant growth opportunities, thus

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<sup>11</sup> Roberts (1998) reported that the more internationalised a firm becomes, the more it focuses on market-seeking, rather than customer-following strategies.



overcoming possible cultural differences. In these target markets competition was less fierce and growth prospects greater. Thus, economic differences, not similarities, were one of the most important factors of market selection for these companies. Cardone-Riportella et al. (2003) in a study of Finnish and Spanish insurance and banking companies, found that although cultural distance played an important role for insurance companies, for banks its influence on their internationalisation was limited. Also, Blomstero et al. (2006) reported that the tendency for soft-service firms to choose committed operation modes rises together with the increase in cultural distance, thus supporting the psychic distance paradox. This finding also demonstrates the close interdependency of international operation and market strategies.

Interestingly, some studies on business services, such as that of Terpstra and Yu's (1988) on the US-based advertising firms, reported that cultural or geographical distances were not very significant factors, as market size and other economic factors often overrode them. Other studies reported some irregularities in target market patterns due to opportunism (O'Farrell and Wood, 1994, Roberts, 1998, Sanchez-Peinado and Pla-Barber, 2006). In addition, although most business services operate between developed countries, there are others who focus on developing markets, based on comparative advantage in factor endowments (Roberts, 1998). That is, if a country is able to develop a national comparative advantage, then its service companies may be able to turn this to their competitive advantage, targeting countries with relatively lower development levels. This finding can be linked also more generally to the discussion on clusters in Chapter 3.

One specific issue related to market strategies is that of regionalisation, the phenomena also discussed in chapter 3. For example, Rugman and Girod (2003) claimed that in retail and related industries companies are usually regional, and seldom implement global

strategies. Actually, the few global companies in Rugman et al.'s studies were almost all manufacturing firms, as already discussed in Chapter 3<sup>12</sup>.

Overall, similar to operation strategies, market strategies also have been very heterogeneous for service sector companies, again justifying the need for a more sector specific research on service internationalisation. Many factors that have had an influence on international market strategies of manufacturing companies were the same for services, but their emphasis has varied significantly depending on the service sector. For example, as discussed in Chapter 2, more research is required to understand further the role of psychic distance in the internationalisation strategies of firms in various industries. It could be argued that this is nowhere more evident than in the internationalisation of service sectors.

### **5.5.3 Organisation Strategies**

To understand fully the internationalisation processes of services, investigation of the dynamic changes of international organisation structures, organisation strategies need to be included in the framework (O'Farrell and Wood, 1994, Aharoni, 1996, Roberts, 1998). In undertaking this task, Bartlett and Ghoshal's (1992, , 1998) and Harzing's (2000) typologies, discussed in section 4.6.1, will be used as a reference point.

Traditionally, the organisational structures of manufacturing companies change as their level of global involvement increases (Bartlett and Ghoshal, 1992). Companies develop from domestic to international, then to multinational/multidomestic, followed by global, and finally to transnational companies (Bartlett and Ghoshal, 1992, Lovelock and Yip, 1996). However, there have been mixed findings in research about how linear this development is and how much it has been dependent on other issues, such as industry factors and forces (Lovelock and Yip, 1996).

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<sup>12</sup> In their relatively strict definitions only one retailer was defined as global, a luxury good retailer LVMH, because of its need for developing a global brand image within its niche sector.

As in research on internationalisation processes, most studies on the organisation structures of MNEs has been based on large manufacturing companies (Aharoni, 1996). The few studies on the organisation structures of service companies have found variations when compared to manufacturing firms and across different service sectors (Aharoni, 1996).

In service industries, the special characteristics mentioned earlier seem to have influenced organisation structures (Enderwick, 1992, Aharoni, 1996). In the case of soft-services, when a product is not a physical good, an international organisation structure (largely based on exports from domestic markets) may not be a viable option. Rather, these types of firms seem to adopt multidomestic structures due to a combination of committed operation modes and a need to be responsive. However, in cases where service companies have been able to embed a service within goods, or deliver their products on-line, international organisation structures have also been possible (Boddewyn et al., 1986, Erramilli, 1990, Clark and Rajaratnam, 1999). There seems to be a direct link between organisation and product and operation strategies.

On the other hand, in some business service sectors which need to provide similar services for their clients globally, more integrated and global structures prevail (Aharoni, 1996, Roberts, 1999). Also, as previously mentioned, international customers of business service companies seek to lower their uncertainties by buying from companies with a known reputation and brand, which also pushes the development towards more integrated and global organisation structures for business service companies (Aharoni, 1996). It could be argued that in some cases more integrated organisation structures can actually help to manage otherwise common heterogeneity and variability in services. This issue can be linked to Yip's findings on global market drivers and how internationalising MNEs as customers result in global organisation strategies.

In a similar vein, some sectors, such as most retail and other consumer services with requirements to be more responsive and regional, as discussed, follow more multidomestic

models (Akehurst and Alexander, 1995, Samiee, 1999). Also, for some business services, such as advertising, cultural sensitivity and the need for local responsiveness plays an important role (Roberts, 1998). For these types of companies organisation structures based on high-level standardisation and centralised decision making may not be the most applicable. Moreover, in contrast to manufacturing companies which have focused on core competences, the internationalising companies in service sectors have been increasing both in terms of size and scope (Enderwick, 1992). This may have created additional challenges for service companies to implement very integrated and often focused global strategies.

Rugman and Hodgetts (2001) actually argued that all service sector companies need to be responsive to national markets, which even in the case of the most integrated strategies they will still need to maintain some matrix structure to balance this. Based on Samiee (1999), this is not a result from the fact that, generally, services started to internationalise later than manufacturing firms, but because in some services the transformation to a global organisation will never occur. Harzing (2000) also questioned if services companies can be truly global ones.

However, some major questions still remain for researchers: if organisation structures vary across different service sectors more permanently, does this mean that some sectors are more global and some more multidomestic in their nature, or is the development in all sectors proceeding towards more transnational organisation models, as suggested is the case in the service sectors by Aharoni, and more generally by Bartlett and Ghoshal? Moreover, as already discussed in section 3.4, the regionalisation developments may also require adjustments to the typology, an issue especially relevant in service sectors (Rugman and Hodgetts, 2001).

## **5.6 Internationalisation of Network Industries**

### **5.6.1 Background**

Network industries are service industries which include airlines, railways, postal services, telecommunications, utilities and the banking sector. The role of these industries in today's economies is fundamental as they provide essential services to communities and businesses. Thus, they are often strategically very important for governments.

Network industries are very capital-intensive with significant economies of scale advantages. Moreover, these industries share some special characteristics, such as network externalities and the role of government. Partly due to these factors Ehret (2004) and Fjeldstad et al. (2004) argued that some traditional internationalisation theories cannot adequately explain the internationalisation process of such sectors. It is argued that these characteristics have a major influence on how network companies determine their international market entry and operation modes, and the type of organisation strategies implemented. In this section how network companies' internationalisation processes differ from those suggested by more traditional theories based mostly on the internationalisation of manufacturing companies, and from service sectors other than network industries, will be discussed.

### **5.6.2 Capital Intensity of Network Industries**

As a definition, in most network industries (physical) networks are an essential part of their operations. This results in high capital-intensity of the industry, complemented by other specific characteristics such as significant economies of scale advantages, interconnection and interoperability between the networks within an industry, existence of natural monopolies, and sunk costs<sup>13</sup> (Shy, 1995, Economides, 1996, Shapiro and Varian, 1999, Welfens et al., 1999, Glachant, 2002, Liebowitz, 2002). Due to capital-intensity these industries can be classified as asset-based and location-bound services.

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<sup>13</sup> It is often the case that when a network is built, it is impossible or very difficult to move it to another location.

### **5.6.3 Network Externalities and First Mover Advantage**

Network externalities play a key role in most network industries. Network externalities can be understood to exist when the value of a service for customers increases and the per unit production cost for the service provider decreases as the number of users rises (Economides, 1996, Glachant, 2002, Liebowitz, 2002, McGee and Sammut Bonnici, 2002, Shy, 2002).

Generally, the existence of network externalities provides a competitive advantage to larger companies and can result in a *winner take all* situation (Liebowitz, 2002). This perception of winner take all or first mover advantage situation may result in very aggressive internationalisation strategies, a situation very similar to those reported on studies on oligopolistic manufacturing industries, discussed in Chapter 4.

When first mover advantages are combined with high capital-intensity, risks involved in rapid expansion will be much greater than in most other service industries (Glachant, 2002). It could be argued that this is a challenge especially for companies with limited resources. This may result in a situation where, for example, a global strategy, although a strategically optimal solution for a network company, may turn out to be too risky a solution relative to the company's resources. This argument is consistent with Yip's (1989) claim on the applicability of a global strategy for a company with limited resources, mentioned in sub-section 3.3.1.

### **5.6.4 Governments' Role in Network Industries**

In general, government factors seem to have relatively higher influence on internationalising service sectors than on manufacturing companies (Yip, 1989, Aharoni, 1996). This is perhaps most evident in network industries. Some explanation for this is inherently historic because often companies in network industries were previously government-owned monopolies, or at least were heavily regulated. As mentioned earlier,

these industries are often strategically very important to governments, thus there is a high tendency for them to interfere politically, and regulations play a significant role in their operations (Crystal, 1999, Sarkar et al., 1999, Welfens et al., 1999, Glachant, 2002). Host governments may act as mediators to protect domestic companies from the influence of globalisation (Clougherty, 2001). Some governments deem it to be necessary to protect domestic companies against, for example, US-based service companies, which may have an international competitive edge due to the large size of their domestic market and the economies of scale that result (Crystal, 1999). All this has led to greater entry barriers for internationalising companies in network industries than for companies in other sectors (Ramamurti and Sarathy, 1997, Crystal, 1999).

Due to these relatively high entry barriers, it has become necessary for network industry companies to receive support from their home governments in their internationalisation, especially in situations in which host countries do not offer reciprocal access to their markets (Crystal, 1999, Bonardi, 2004). Developments such as these have resulted in asymmetric strategies - the blending of defensive and offensive strategies. Somewhat paradoxically companies try to prevent the entry of international competitors into their own domestic markets while at the same time attempting to compete vigorously in international markets themselves (Crystal, 1999, Bonardi, 2004). Thus, relationships with home country governments have had a significant impact upon both the domestic and international activities of these companies (Bonardi, 2004). Also, asymmetry means that the role of both home and host governments has become very important (Bonardi, 2004).

More recently, protective barriers and regulations have been decreasing because of liberalisation developments, such as the the Uruguay Round of the GATT negotiations, mentioned earlier in this chapter. Network industries have entered more market oriented systems (Glachant, 2002). In addition, deregulation activities have also been complemented by privatisation developments in many network industries, such as airlines, railways,

telecommunications, and utilities (Buckley et al., 2001). These developments have had a great influence on structures in these industries, although this transformation is still ongoing and governments still play a significant role by regulating parts of the networks and maintaining some (national) industry standards (Economides, 1996, Glachant, 2002). The change process in the industry takes time (Crystal, 1999).

An analysis of government effects on industry structures indicates that, in a monopoly, the value chains of network companies were highly vertically integrated (Economides, 1996, Contractor and Lorange, 2002, Glachant, 2002). However, deregulation has changed industry value systems in network industries. In order to maintain their competitiveness companies in these industries have undertaken significant restructuring (Aharoni, 1996). Together, deregulation and the following restructuring have contributed to rapid internationalisation of these types of companies (Yip, 1989, Bonardi, 2004)<sup>14</sup>.

In summary, the political influence that both home and host governments can yield in relation to the internationalisation processes of companies in network industries varies significantly from that applying to most manufacturing companies (Crystal, 1999, Glachant, 2002, Bonardi, 2004), and to many other service sectors. This can impact on their internationalisation patterns in a very unpredictable way (Enderwick, 1992). Thus, it becomes necessary to understand firms' political strategies in these types of industries (Bonardi, 2004). Models incorporating also the role of government/governmental factors should be applied (Glachant, 2002). These findings support Yip's (1989) and Aharoni's (1996) arguments about government drivers and their role in service industries, discussed earlier.

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<sup>14</sup> An example of this can be found in the financial sector after the European Union made the decision to allow free capital flows across its member countries in 1992. This action created a sense of urgency for many European banks and financial companies to enter several European markets (Yip, 1989), a trend which was later followed in other service industries.



### 5.6.5 Internationalisation Strategies of Network Industries

In this sub-section international operation, market and organisation strategies of companies in network industries will be reviewed. They will be compared with strategies of manufacturing companies, and other service sectors, such as business services, and people-intensive and other culturally-bound service sectors, continuing the discussion from section 5.5 on internationalisation strategies of different service sectors.

Overall, deregulation and privatisation developments have made it possible for firms in these industries to diversify some of their activities, and at the same time acquire new operations or form joint-ventures of a scale that was not previously possible (Buckley et al., 2001). This has resulted in shifts up and down the value chain, and also enabled horizontal integration across national borders.

As network industries are asset-based and location-bound, the first assumption may be that they start their international process immediately with high-committed *operation modes*. However, as also discussed earlier, in capital-intensive sectors investments required are higher than in most other services, thus increasing risks and creating pressure to internationalise more carefully. Partly because of this, and partly due to some host government regulations and other political issues discussed earlier, many network industries often use shared operation modes, such as joint-ventures to share the risks and to overcome host government restrictions (Dunning, 1989). In addition, due to the need to achieve greater economies of scale rapidly as a result of network externalities and first mover advantages, there is a strong motivation for shared modes internationally, including strategic alliances.

Further, in the 1990s the structures of most network industries were still oligopolistic in many markets, a fact which may have further increased the challenges of market entry. Moreover, in order to offer quality services, firms needed to ensure interconnection and interoperability across borders. Alliances were essential means to overcome these challenges during the early phase of internationalisation in these industries (Economides, 1996, Crystal,

1999, Shy, 2002). Also, in network industries with rapid international expansion, alliances offered an opportunity to cooperate with other companies in R&D and production (Contractor and Lorange, 2002). In summary, as a result of general deregulation developments, alliance formation intensified, with many network industry companies such as utilities, financial institutions, and airlines entering into international alliances (Contractor and Lorange, 2002). All this supports the findings on strategic alliances and similar alternative entry modes, and motivations for firms to enter them, as discussed in Chapter 4.

In several country markets, however, political pressures from host governments also had an impact on alliance operations, as in some countries there was strong opposition towards the formation of international alliances (Crystal, 1999). This kind of opposition by some governments has been a characteristic of service industries, which have requirements for local presence and have several sector specific regulations (Crystal, 1999). These asymmetries between different country markets often have had a great impact on the level of foreign direct investments for network industry firms (Ramamurti and Sarathy, 1997, Crystal, 1999), having a direct impact on their operation strategies.

With regards to their *market strategies*, there is still little research on network industries. Based on the few studies conducted, network industries seem to follow different strategies than manufacturing companies, or many other services, such as business services or people-intensive or other culturally-bound service sectors. As discussed in section 5.5, most services follow traditional internationalisation patterns in their market strategies, and there is some evidence that this is also the case in some network industries<sup>15</sup>. However, as discussed, the actions of governments have created an environment in which asymmetric strategies prevail in network industries. This has often forced companies to avoid other developed markets and enter developing countries with fewer requirements for reciprocal access (Bonardi, 2004). For example, neighbouring countries may have political ambitions which

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<sup>15</sup> For example, Fuentelsaz et al.'s (2002) study on the Spanish banking sector after deregulation found that they entered foreign markets incrementally, starting with countries with small psychic distance.

prevent reciprocity, or there may be other interventionist government measures which shape the industry structure. In many cases this has caused barriers for network industry companies for entry into foreign market to be lower for developing countries, in which governments welcome foreign investment, than entering neighbouring developed countries. This supports the psychic distance paradox, discussed in sub-section 2.4.3 and earlier in this chapter; that is, in some industries more opportunities exist in markets with greater psychic distance, as companies from highly developed countries can actually perform better in developing markets.

Overall, it could be argued that due to network externalities and first mover advantages, and possible oligopolistic industry structures, firms in network industries are more aggressive with regards to their market strategies. In addition, Bonardi (2004) found some evidence of client-following strategies in network industries, although it could be argued that in relative terms these industries are mostly targeting consumers, rather than businesses as their customers. However, there is still little research on these issues.

As mentioned earlier, economies of scale advantages are typical for companies in network industries. Deregulation and internationalisation enabled many of these companies to increase their scale across national borders. However, it could be argued that as opposed to economies of scale in many manufacturing industries, these scale advantages are in many cases more location-bound, as the service is not ‘exportable’ to places where the network does not exist. This, though, may vary across network industries. For example, it may be easier to achieve global economies of scale in banking or air-transportation, whereas utilities and railways are very dependant on their physical network in providing services for the end customer. Following this reasoning, it could be argued that instead of ‘global economies of scale’, ‘local economies of scale’ are more typical in most network industries<sup>16</sup>. If this is the case, this would support the argument of regionalisation, rather than globalisation, in the

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<sup>16</sup> The concept of ‘local economies of scale’ is discussed in Kamani and Wernerfelt (1985).

international development of network industries; that is, there would be less pressure to globalise rapidly due to economies of scale advantages.

Asymmetries between different country markets, mentioned earlier, have also had an influence on *organisation strategies* of firms in network industries. Political strategies and limited cooperation between governments can result, for example, in variations in regulations and/or different technological standards. Benefits in implementing a global strategy do not arise easily in this type of asymmetric environment (Bonardi, 2004). The emphasis for firms on domestic markets is in defensive political strategies, whereas in international markets more expansive and growth oriented offensive strategies are required (Bonardi, 2004). As these industries are asset-based and location-bound, it could be argued that international strategies are not feasible either. Thus, multidomestic organisation structures seem to be most commonly used in network industries (Sarkar et al., 1999, Bonardi, 2004). Moreover, multidomestic strategies may also be more feasible when a company is not able to enter most major markets and/or when it enters both developed and developing countries, as is often the case in network industries (Bonardi, 2004). In addition, it is often assumed that in the situations in which global strategies would be feasible in deregulated network industries, they fit only the very few major dominant players (Bonardi, 2004). This may be due to high capital intensity and oligopolistic industry structures. Thus, multidomestic strategies may better fit network industry companies with limited resources.

To sum up, network industries are an identifiable group within the service sector that share many similar characteristics, including the influence of network externalities and the role of governments. With regards to their service classifications network industries can be identified as soft-services, asset-based, location-bound and capital-intensive services. These characteristics and factors result in some variations to traditional manufacturing theories with regards to exportability and, on the other hand, when compared to many other services, the risk levels in their investments are relatively higher. All these factors result in the

internationalisation processes of network industry companies following a particular path. This discussion therefore suggests that more focused research on this sector demands our attention because of its uniqueness.

## **5.7 Summary**

This chapter has provided a review of the internationalisation of services. It began with a discussion on the increased importance of services, and identified gaps in the research. While the benefits of the traditional process theories were acknowledged, it was demonstrated that in several cases the internationalisation processes of service companies vary from those suggested by theories developed mostly from data on manufacturing companies. Furthermore, it was also argued that services are not similar with respect to their internationalisation strategies across different service sectors.

Service characteristics were identified as significant factors for these variations, resulting in deviations in service firms' product strategies across different service sectors. To understand better the internationalisation of services, it has been important to classify services into categories with similar characteristics and business processes. It was argued that, generally, hard-services are similar to manufacturing companies in their internationalisation, whereas soft-services deviate from these processes. Differences across service sectors were also identified based on classifications such as people-intensity, knowledge-intensity and capital-intensity, and between business and consumer services.

It was also demonstrated that as a result of some globalisation developments, services have been able to use flexible operation modes and in some cases adapt their product strategies to better serve the demands to internationalise. Overall, this chapter has highlighted the interdependency of international product, operation, market and organisation strategies of services, which led to a review of the internationalisation of network industries and their unique characteristics. In the next chapter more in depth discussion of the internationalisation

of one of the most important service sector and a network industry, the telecommunications service sector, will be undertaken.

## **6 Internationalisation of the Telecommunications Services Sector**

### **6.1 Introduction**

This chapter presents a review of the telecommunications industry, especially the telecommunications services sector, the focus of this study. The telecommunications industry is very important for the whole world economy and has gone through rapid changes during the last few decades. However, it will be argued that more research focused on the internationalisation processes of telcos is required to increase our understanding of the recent challenges that telcos have faced and the factors that influence these processes.

First, research on the telecommunications service sector will be reviewed. It will be argued that although there are numerous studies of the telecommunications industry and telcos, few of them have had a theoretical perspective on internationalisation as a process and/or were conducted prior to some of the recent significant changes in the industry. That is, more theoretically-based and longitudinal studies are required that include the recent events of the sector. Second, the history of the telecommunications industry will be reviewed briefly. Following this, several key developments in the sector, specific characteristics of telcos, and factors influencing their internationalisation, will be explored. Finally, the internationalisation strategies of telcos are discussed. These discussions will be linked with the discussion in the previous chapter of the special characteristics of service industries, and particularly network industries.

It will be argued that industry specific factors result in significant deviations in internationalisation patterns of telcos when compared to manufacturing companies, and companies in many other service sectors. It will also be argued that several of these factors seem to benefit the largest MNEs in the sector, causing significant challenges especially for telcos from smaller economies.

## **6.2 Research on the Telecommunications Service Sector**

Telcos share many typical characteristics of other network industries mentioned in the previous chapter, such as network externalities, high capital intensity and economies of scale advantages, and government's important role (Economides, 1996, Gual and Waverman, 1998, Shy, 2002, Fjeldstad et al., 2004). Also telcos, like companies in many of the other network industries, have faced challenges of intensified competition after a long period of relatively stable developments, and were required to revive themselves (Stienstra et al., 2004). Thus, continuing the discussion of the previous chapter, it could be argued that the internationalisation of telcos cannot be adequately explained by the traditional internationalisation theories, and some adaptation is required (Granstrand, 1994, Sarkar et al., 1999, Sabat, 2002, Fjeldstad et al., 2004).

In addition to the typical network industry characteristics, the telco sector has only recently experienced some significant and rapid changes: important new technologies have been developed, such as mobile communications and internet; the sector has experienced very rapid growth; and the telecommunications industry has been converging with the computing and broadcasting industries to form a broader definition of the Information and Communications Technologies (ICT) sector (Sabat, 2002, Economic and Social Council, 2004). The telecommunication services sector, especially mobile and internet communications, has been perhaps the fastest growing and most dynamic service industry of the 1990s (Graack, 1996, Keil and Autio, 1997, Bohlin et al., 2001, Shy, 2002).

These rapid changes have resulted in the industry structure and value chains developing faster than research has been able to investigate (Keil and Autio, 1997, Li and Whalley, 2002, Sabat, 2002). New players have emerged and old incumbents have had to change their strategies (Li and Whalley, 2002). Suddenly, companies who had operated as national monopolies faced competition in their domestic markets and started to look for new growth areas, sometimes internationally. Some of these developments have resulted in some



internationalisation strategies for telcos being different from many other network industries with more gradual liberalisation and more modest technological developments, such as railways, transportation and energy sectors (Welfens et al., 1999). Thus, it could be argued that to study the internationalisation processes of telcos is a very current research topic. More telco specific internationalisation research is required to identify and analyse these possible idiosyncrasies. In addition to the large size of the telco sector, and thus its own direct economic value, the sector also has a significant role in economic and social developments more generally (Bangemann, 1997, Wang, 2003), reinforcing the need to understand better this sector.

Despite these changes and increasing activity in internationalisation and international investments of telcos in the late 1990s and early in the 21<sup>st</sup> century, there is still very little theory development on the internationalisation of telcos (Sarkar et al., 1999, Fjeldstad et al., 2004). Although considerable recent research on telcos has been undertaken, such as research into value networks and industry transformation (Cave and Waverman, 1999, Li and Whalley, 2002, Sabat, 2002, Steinbock, 2003, Whalley, 2004, Peppard and Rylander, 2006), deregulation/regulation (Gual and Waverman, 1998, Wallace and Teeling, 1999, Bonardi, 2004), mergers and acquisitions (Trillas, 2002), innovation and technological development (Keil and Autio, 1997, Waverman, 1998, Sirel and Waverman, 2000, Bohlin et al., 2001), and strategic alliances (Chan-Olmsted and Jamison, 2001, Curwen, 2001, Hurrros and Seristö, 2002, García-Canal and Sánchez-Lorda, 2007), the focus of these studies has not been on the actual internationalisation process, and has not been directly linked to existing international business theories. This gap in the research is perhaps partly explained by the fact that telecommunications companies started to internationalise later than many other service sectors, thus data on these developments has become available only recently<sup>17</sup>.

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<sup>17</sup> It is notable that some studies on service internationalisation that analysed many different service sectors, rarely included data on the telecommunications service sector. For example, Contractor et al. (2003) investigated 11 different service sectors, but the telecommunications service sector was not included. Knight (1999) covered

The few valuable studies that have adopted an international business perspective and studied the internationalisation process of telcos have focused mostly on telcos from large countries, and were mostly based on secondary data. Moreover, the more comprehensive of these, Sarkar et al.'s (1999) study, included data until 1994, thus missing some of the most recent developments in the sector. Also Bohlin and Granstrand's (1994) provided a comprehensive analysis of some of the early developments in the internationalisation of the sector. In addition, Gerpott and Jakopin's (2005) and Fjeldstad et al.'s (2004) studies provided valuable information on the internationalisation of telcos, but focused only on one segment of the industry, namely the European mobile phone operators, and on their performance, rather than on the internationalisation process of telcos in the former, and on the early developments of the industry in the latter.

In their study Sarkar et al. (1999) emphasised the need for further research on telcos which would pay more attention to the idiosyncrasies of this industry. They asked for a more sector-specific theory of the internationalisation of MNEs in general; and in this case to analyse which context-specific issues mostly affect the internationalisation of telcos and how these possible industry-specific idiosyncrasies can be integrated into a more comprehensive model of internationalisation. This echoes the more general arguments for research on service internationalisation, discussed in Chapter 5. Moreover, Gerpott and Jakopin (2005) suggested further studies that would include data from telcos located outside Europe, in business areas other than mobile communications, and methodologies that would better enable the analysis of the processes of internationalisation.

It is argued here that to gain more comprehensive understanding of the internationalisation processes of telcos, in-depth case studies that include the latest changes in the industry are required and that the unit of analysis needs to be at headquarter/corporate

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124 articles in his comprehensive literature review on service internationalisation and only 3 of them were focused on telcos. Network industries more generally have been under-represented in these studies. It could be argued that one reason for this omittance is the relatively late internationalisation of this sector.

level, including all business units. It is further argued that the gap in research is especially evident in the internationalisation of telcos from smaller economies, as they have faced specific challenges in their internationalisation (Kramer and Ní Shuilleabháin, 1997, Balsinde et al., 2000). Entering international markets in the telco sector is very costly and includes high risks, which puts additional pressures on companies with limited resources (Kramer and Ní Shuilleabháin, 1997), which is the case for most of the telcos from small economies.

### **6.3 History of the Telecommunications Service Sector**

In the early days of the telecommunications industry, in the late 19<sup>th</sup> century after Alexander Graham Bell patented the telephone in 1876, the telecommunications equipment manufacturers started their internationalisation, including entries into the emerging markets (Bohlin and Granstrand, 1994). Also, following that invention, some of the service companies in the industry, telcos, started their first international operations although overall this development was relatively insignificant until the 1980s (Bohlin and Granstrand, 1994). One of the few examples of an early internationalised telco was Cable and Wireless from the UK, which mostly expanded its network to the British colonies (Bohlin and Granstrand, 1994). However, notwithstanding these few exceptions, the predominating mode of operation was that telcos were regulated monopoly companies focusing on operations in domestic markets, and mostly owned by governments (Bohlin and Granstrand, 1994, Cave and Waverman, 1999, Sarkar et al., 1999). Opportunities for international growth were very limited (Antonelli, 1997).

Common justifications for the monopoly position of telcos were similar to that of other network industries. These included security issues and the natural monopoly arguments; that is, a service is a public good, it has strong network externalities, and it uses scarce resources (Heng and Low, 1990, Economides, 1996). In several country markets these dominant network operators even represented the whole telecommunications industry, covering all business areas from operating networks to manufacturing telecommunications

equipments (Steinbock, 2001). However, more generally, as a result of these developments, the telecommunications industry consisted, at some level, of international manufacturing companies and mostly national telcos (Winterscheid and McNabb, 1996, Bartlett and Ghoshal, 1998). It must be noted, however, that there was a necessary international part of operations already with these early telcos as international connections between each country's network were based on bilateral relationships between national telcos in different countries (Cave and Waverman, 1999). This meant that the small share of international revenues that telcos generated at that time were based on sales of voice and data services to customers in one's own domestic market (Kramer and Ní Shuilleabháin, 1997). Overall the cooperation between telcos from a large number of countries was very consensus driven and developments in pricing and competitive issues very slow and gradual (Cave and Waverman, 1999).

#### **6.4 Factors Influencing the Internationalisation of Telcos**

As already discussed in the earlier chapters, and further confirmed by Sarkar et al. (1999) and Fjeldstad et al. (2004) in their studies on the telecommunications industry, industry context is a key determinant of a company's competitive actions, including internationalisation. In the next sections factors that have contributed to the historical structure and the more recent internationalisation developments in the telecommunications industry are discussed further.

Sarkar et al. (1999) analysed the internationalisation of telcos and argued that the process is very unique due to three main factors: network characteristics, the industry's oligopolistic structure, and limited opportunities available in foreign markets. Bohlin and Granstrand (1994) identified capital- and technology-intensities to be significant differentiators when comparing telcos to manufacturing sector companies. In this study, based on Sarkar et al.'s and Bohlin and Granstrand's findings, as well as a review of other telco-based research and studies of the internationalisation of network industries discussed in

Chapter 5, eight groups of factors were identified: capital-intensity of the sector, network externalities, liberalisation (deregulation and privatisation) developments, governments' role and regulation, technological developments and standards, changing industry structures, industry growth, company-specific factors, and internationalising customers. These will be discussed in the following sections.

#### **6.4.1 Capital Intensity in the Telco Sector**

Like most other network industry companies, telcos are normally very capital-intensive (Bohlin and Granstrand, 1994). Thus, it could be argued that telcos can be classified as asset-based and location-bound services. In addition, investments in physical networks/infrastructure are often made up-front, have very long life spans, and are sunk-costs in their nature (Heng and Low, 1990, Sarkar et al., 1999, Welfens et al., 1999, Henisz and Zelner, 2001, Glachant, 2002). That is, when investments are once made in infrastructure/physical networks, it is very difficult or even impossible to transfer the infrastructure to an alternative location should the investment prove to be unsuccessful (Sarkar et al., 1999). All this increases the required commitments and the risk-level of the international investments in the sector. Thus, it could be argued that the high-capital intensity favours telcos with large size and financial resources. However, as already discussed in Chapter 5, it could also be argued that unlike many (global) manufacturing industries, at some level these economies of scale advantages and other advantages are strong at local or regional level, rather than globally.

#### **6.4.2 Network Externalities in the Telco Sector**

Network externalities are an important factor in the telecommunications service sector as in other network industries (Glachant, 2002, Fjeldstad et al., 2004). As discussed in the previous chapter, this factor may result in aggressive internationalisation strategies also benefiting the largest companies in the sector. However, unlike in some sectors with very open competition, such as software development, there are still plenty of entry barriers in the

telco sector, thus contributing to a much more complex overall situation. That is, whereas network externalities influence as a push factor to internationalise, some other relevant characteristics in the telco sector, such as ownership restrictions, interconnection rules, standards, and licences, discussed in more detail in the following sections of this chapter, could dampen this influence (Glachant, 2002, Fjeldstad et al., 2004).

### **6.4.3 Deregulation and Privatisation in the Telco Sector**

Due to liberalisation, that is, deregulation and privatisation developments, decades of relatively stable development in the telecommunications industry started to change rapidly in the 1980s, and accelerated in the 1990s (Antonelli, 1997, Sarkar et al., 1999, Li and Whalley, 2002). Telco services transformed from a much regulated sector, based almost entirely on national monopolies, to oligopolistic and even full competition. Indeed, it was not until these developments that most telcos started their active internationalisation phase including significant foreign investments (Sarkar et al., 1999).

The first phase of the deregulation developments started in the 1980s, when several governments began to question the effectiveness of the existing structure and the reasoning behind the natural monopoly argument (Shy, 2002). This was closely related to the more general liberalisation of services, discussed in Chapter 5, as telco liberalisation was included in GATT and WTO discussions (Cave and Waverman, 1999). Furthermore, large corporate customers became more demanding (Waverman and Trillas, 2002). This was a starting point for significant changes in which competition in the sector started to increase, power started to shift from national governments and cooperative organisations such as ITU to international institutions such as GATT and MNEs, and markets started to become more homogeneous (Sarkar et al., 1999).

The first countries to open their telecommunications industry to competition were the UK and the US in 1984, and soon many other developed countries followed (Bohlin and Granstrand, 1994, Gual and Waverman, 1998, Waverman, 1998, Li and Whalley, 2002,

Gimeno et al., 2005)<sup>18</sup>. The competition in the previously tranquil and protected telecommunications service sector had started.

In the next phase, following the Uruguay round of GATT negotiations, these developments were further accelerated by the Telecommunications Act of 1996 in the US, by 59 countries signing the WTO Basic Agreement Telecommunications in 1997, and the European Commission Directive that liberalised EU's telecommunications markets in January 1998 (Bangemann, 1997, Waverman, 1998, Li and Whalley, 2002, Waverman and Trillas, 2002, Bonardi, 2004, Gimeno et al., 2005)<sup>19</sup>. All these developments increased competition in the sector as new entrants entered previously monopolistic, or in a few rare cases, oligopolistic telco markets (Li and Whalley, 2002). By 1998 the number of countries that had opened their telco sector to competition exceeded 30 (Wheelen and Hunger, 2004). This increased competition resulted in rapidly decreasing prices for customers, and shrinking revenues for telcos (Bangemann, 1997, Cave and Waverman, 1999, Wallace and Teeling, 1999, Jagannathan et al., 2003)<sup>20</sup>.

These deregulation developments also contributed to another significant change, namely the privatisation of government-owned entities. The political sentiment moved towards private sector ownership in the telecommunications service sector in many countries (Ryan, 1997, Ure and Vivorakij, 1997, Wallace and Teeling, 1999, Bortolotti et al., 2002). The privatisation of AT&T, BT and C&W provided a template for other countries to follow (Ure and Vivorakij, 1997). These privatisation developments often progressed in phases from government departments to independent state-owned enterprises to privatised companies,

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<sup>18</sup> In the UK the government gradually opened up competition in the telecommunications industry in 1981, and a few years later, in 1984, privatised British Telecom (BT), their national incumbent telco (Bohlin and Granstrand, 1994, Davies, 1994, British Telecom, 2006). In the US regulators opened their long-distance markets in 1984 by breaking up AT&T and creating several 'Baby Bell'-telcos (Li and Whalley, 2002, Waverman and Trillas, 2002, Steinbock, 2003, Gimeno et al., 2005). At the same time also MCI and SPRINT were allowed to start competing with AT&T in long-distance and international calls (Shy, 2002). Japan also followed these examples and privatised NTT in 1985 (Bohlin and Granstrand, 1994, Steinbock, 2003).

<sup>19</sup> In Europe this was a natural continuum of the EU's efforts to foster competition by also creating a single European market in the telecommunications industry (Bangemann, 1997).

<sup>20</sup> For example, Jagannathan et al. (2003) pointed out that three years after deregulation in European markets, incumbents lost, on average, 22 and 35 percent of their market share in national and international long-distance calls (respectively).

with ownership usually shifting over time from government to private investors (Ure and Vivorakij, 1997, Wallace and Teeling, 1999). The rationality for privatisation was to improve productivity and economic development, but also to provide (short-term) financial benefits to governments (Ure and Vivorakij, 1997)<sup>21</sup>. For example, in Asia governments who lacked funding due to the Asian crisis were able to receive funds from privatisation proceeds (Ure and Vivorakij, 1997).

#### **6.4.4 Governments' Role and Regulation in the Telco Sector**

In spite of the above mentioned deregulation and privatisation developments governments still played an important role in the industry. As already discussed in the previous chapter, network industries are often strategically very significant for governments, resulting in on-going regulation relating to ownership and to entry barriers in the sector. In support of these regulations it was argued that political strategies still played an important role in these types of industries and government support was required, especially for telcos of smaller economies and in situations in which the entry barriers were asymmetric.

Although global institutions such as GATT and WTO challenged the sovereignty of individual government decision making (Wang, 2003), global legislation was still missing in the telco sector and most of the regulations and entry barriers were decided by individual governments (Bangemann, 1997, Sarkar et al., 1999, Maitland et al., 2002). That is, in spite of the efforts by the WTO, the EU, and other international institutions, the level and pace of deregulation developments varied significantly across countries (Winterscheid and McNabb, 1996, Sarkar et al., 1999). Some of these changes proceeded gradually. For example, Gual and Waverman (1998) reported considerable variations even within the EU. This was partly because many telcos had managed to negotiate an extended period of market protection in order to update their operations and technologies (Winterscheid and McNabb, 1996). Also, in

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<sup>21</sup> It needs to be noted that although privatisation increased the performances of national telcos, the major part of the improvements in the efficiency and output resulted from deregulation (that is, competition) and managed regulation, rather than from privatisation itself (Ure and Vivorakij, 1997, Bortolotti et al., 2002). Privatisation without sufficient deregulation may actually increase prices for customers (Ure and Vivorakij, 1997).



the US deregulation developments were slower than expected (Waverman, 1998). This slower progress of deregulation was in many cases supported by international investors who had requirements for extended periods of government regulation and monopoly as a condition of their investments in incumbent telcos (Sarkar et al., 1999).

Furthermore, governments' objectives remained an important factor for the strategies of both incumbent and challenger telcos (Wallace and Teeling, 1999). For example, like many other network industries the telco sector was perceived as strategic for security reasons, creating some tensions between different countries on policy issues (Winterscheid and McNabb, 1996, Ure and Vivorakij, 1997, Sarkar et al., 1999). Thus, governments' wanted to remain in control of managing assets in this capital-intensive sector, rather than selling them to foreign investors (Mody et al., 1995, Shy, 2002)<sup>22</sup>. For example, in Europe many governments maintained their dominance and ownership control in national incumbent telcos, which still managed to retain market leadership in most segments (Winterscheid and McNabb, 1996, Keil and Autio, 1997, Waverman and Trillas, 2002, Curwen, 2004). There were also examples in other developed countries of host governments slowing foreign acquisition of major telcos, such as the questioning of DT's acquisition of VoiceStream by the US Government (Sidak, 2002). In Asia the role of the state and various stakeholders, and the degree of nationalism, local characteristics and promotion of local ownership is relatively even greater (Hudson, 1997, Ure and Vivorakij, 1997)<sup>23</sup>. That is, in many cases sovereignty of the country was deemed to be more important than the need to maximise economic growth by accelerating liberalisation, views that were sometimes in conflict (Wang, 2003). Although liberalisation developments did occur in most Asian countries, there were significant

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<sup>22</sup> One additional area that caused governments to keep regulating the sector has been the requirement for universal service listed as a basic human right (Graack, 1996, Hudson, 1997, Gual and Waverman, 1998, Wallace and Teeling, 1999, Glachant, 2002). This included requirements on price, quality and availability of the basic telecommunications services. Partly these objectives were managed by regulating the licences granted to telecommunication operators in certain business sectors and setting up industry standards (Sirel and Waverman, 2000).

<sup>23</sup> For example, ownership and control of assets between governments and other nonstate stakeholders, such as ruling party, military faction, and/or leading family was not always as clearly separated as in Western/OECD countries (Ure and Vivorakij, 1997)..

differences in their level and pace. Developing countries often lacked transparency when compared to Western countries, increasing the political risk further, an issue especially relevant in industries in which investments in the target country are large and sunk costs (Ure and Vivorakij, 1997). Some countries, such as China, were even able to maintain their right to limit the foreign investments to minority joint venture partners in its telco service sector (Doh et al., 2004).

Due to the relatively strong role of governments still evident in the industry, political strategies have been important to telcos relative to companies in other less controlled sectors/industries (Sarkar et al., 1999, Henisz and Zelner, 2001), confirming the findings from many other network industries. Telcos, both incumbents and new entrants, had to compete in an environment in which governments could change the rules of the game constantly, and relationships between governments and telcos were significant factors in their internationalisation (Waverman and Trillas, 2002, Bonardi, 2004). For example, the typical long life span of investments in the industry means that investments would extend over several elected governments, thus emphasizing the requirements for stability in the host country (Mody et al., 1995, Henisz and Zelner, 2001). Together these regulation issues, political risk factors, and investment risk levels contributed to the relative attractiveness of each country market (Gual and Waverman, 1998, Henisz and Zelner, 2001). Thus it is necessary to include political resources and strategies in an analysis of internationalisation strategies of former monopolies (Granstrand, 1994, Bonardi, 2004, Curwen, 2004).

Interestingly, regulation may have also limited some of the effects of network externalities. Whereas under conditions of free competition network externalities would be a strong accelerating factor in the internationalisation process, in a regulated environment with clear interconnection rules, common standards, and barriers to entry/invest, some of the most urgent needs to expand rapidly may have been dampened. That is, if operators are forced to give access to other operators to connect into their services and networks, and rules exist on

number portability (Gual and Waverman, 1998, Fjeldstad et al., 2004), there may not be an urgent need to attract customers and volumes at any price, as is the case in some other network industries, such as computer software. It could be argued that in this type of environment operators other than just the largest player can survive. However, it needs to be noted that in many other areas in the sector economies of scale advantages still remain significant, thus providing challenges for smaller players. Overall, there is still little research on these issues from an international business focus.

Governments' may also have an important role in providing a competitive environment for telcos, in order for them to develop their competitive capabilities to internationalise. This includes the optimal regulatory environment (Granstrand, 1994). As Graack (1996) argued, the domestic competitive environment will have an influence on the international market structure of telcos by encouraging them to enter international markets. This issue can also be linked to the earlier discussion on clusters and governments' role in providing an optimal environment for their MNEs.

In summary, as Bohlin and Granstrand (1994) and Sarkar et al. (1999) argued, regulation has played an important role in the internationalisation of telcos, as both an accelerating and a limiting factor. Sarkar et al (1999) called these 'structural failures' and 'unnatural government created imperfections'. Overall, the development of the whole industry, and especially the telecommunications services sector, has been very dependent on its regulatory environment, and this needs to be understood and integrated in models to analyse the internationalisation processes of telcos.

#### **6.4.5 Technological Developments and Standards in the Telecom Industry**

In addition to deregulation, technological development has been one of the main drivers in the globalisation of the industry (Winterscheid and McNabb, 1996, Keil and Autio, 1997, Ramamurti, 2000). Bohlin and Granstrand (1994) defined the telco sector as a technology-based service industry. Since the early 1990s the telecommunications sector may

have been the most dynamic among all other network industries with regards to very rapid technological developments (Li and Whalley, 2002). New technologies, such as internet and mobile communications, and also the convergence of the telecommunications industry with media and information technology industries created new business opportunities for companies in these industries (Bangemann, 1997, Keil and Autio, 1997, Cave and Waverman, 1999, Sarkar et al., 1999, Maitland et al., 2002, Waverman and Trillas, 2002). Also, new technologies decreased some of the entry barriers, for example, by enabling the circumvention of regulations, and as a result, a number of new entrants emerged in the industry (Bohlin and Granstrand, 1994, Cave and Waverman, 1999, Fransman, 2002). The development of the internet was, in particular, in stark contrast to old closed systems (Li and Whalley, 2002, Sabat, 2002). Technological developments and resulting increased capacity, together with intensified competition discussed earlier, had a significant effect on price-levels of telecommunication services (Cave and Waverman, 1999, Jagannathan et al., 2003). Although falling prices for services did increase their usage, this could not replace all the revenues lost. These challenges acted as an additional push factor for telcos to look for new business opportunities.

Although some technological developments were fostering competition, in some other areas technological standards were acting as barriers to global competition. For example, in the first generation of mobile technologies there was no single standard in Europe, as each country developed its own system, which often did not work together (Sirel and Waverman, 2000, Steinbock, 2003). However, when the technological developments moved towards digital mobile technologies, the first European standards emerged, resulting in the fact that the rapid growth of the mobile communications sector started from Europe (Sirel and Waverman, 2000, Steinbock, 2003)<sup>24</sup>. The whole industry environment, however, was still

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<sup>24</sup> Many studies acknowledged the success of European companies in the mobile communications to their common GSM standard in digital technology. For example Maitland et al. (2002) argued that mobile technology had become one of Europe's strategic assets. However, some researchers (Brodsky, 2003) claim that over-regulation, that is, the reliance on one standard only (in licensing) prevented alternative development paths for the future.

very much shaped by regulation on standards and licences, resulting in political issues still having a significant influence on technological developments and also on the internationalisation strategies of telcos (Sirel and Waverman, 2000).

#### **6.4.6 Value Networks: Changing Industry Structures**

General globalisation developments together with the rapid industry specific changes discussed in the previous sections, acted as external shocks that resulted in intensifying competition and led to significant structural changes in the telecommunications industry (Keil and Autio, 1997, Sarkar et al., 1999, Balsinde et al., 2000, Häikiö, 2001, Lehn, 2002, Maitland et al., 2002, Sabat, 2002, Waverman and Trillas, 2002, Steinbock, 2003, Fjeldstad et al., 2004, Stienstra et al., 2004). As already mentioned in section 4.6, value networks provide a valuable tool to analyse industry structures, especially in mediating industries. In this section the concept of value networks will be used to discuss further the changing structures of the telecommunications industry.

Fjeldstad et al. (2004) identified three main activities in the value network of the telecommunications industry: infrastructure operations, service provisioning, and network promotion and contract management. Historically, national monopoly telcos basically dominated the industry and operated the whole value chain from R&D, to equipment manufacturing, to network operating, to service provisioning, to the sales and marketing of the services and telecommunications equipment to the end-customers. Their strategies were based on control of the whole chain (Peppard and Rylander, 2006)<sup>25</sup>. However, after deregulation gradually allowed competition to develop, monopolistic value chains started to disintegrate as more independent players entered the industry (Economides, 1996, Contractor and Lorange, 2002, Glachant, 2002, Sabat, 2002). Competition increased in the equipment manufacturing/supply side, in the sales of equipment to the end-customers, and finally in the

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<sup>25</sup> A well documented example is AT&T in the US (Fransman, 2002). It must be noted, though, that in some countries the telecom equipment manufacturers have been independent actors also historically, although often very closely linked with national telcos.

actual telco operations as well. Due to these developments value chains have changed from vertical to horizontal, and from value chains to value networks (Cave and Waverman, 1999, Li and Whalley, 2002, Sabat, 2002, Steinbock, 2003, Fjeldstad et al., 2004, Peppard and Rylander, 2006)<sup>26</sup>. This new industry value network changed the logic, economics and competitive scenery of the industry and became a significant factor itself in shaping companies and strategies in the industry, especially telcos' (Bangemann, 1997, Keil and Autio, 1997, Gual and Waverman, 1998, Lehn, 2002, Maitland et al., 2002).

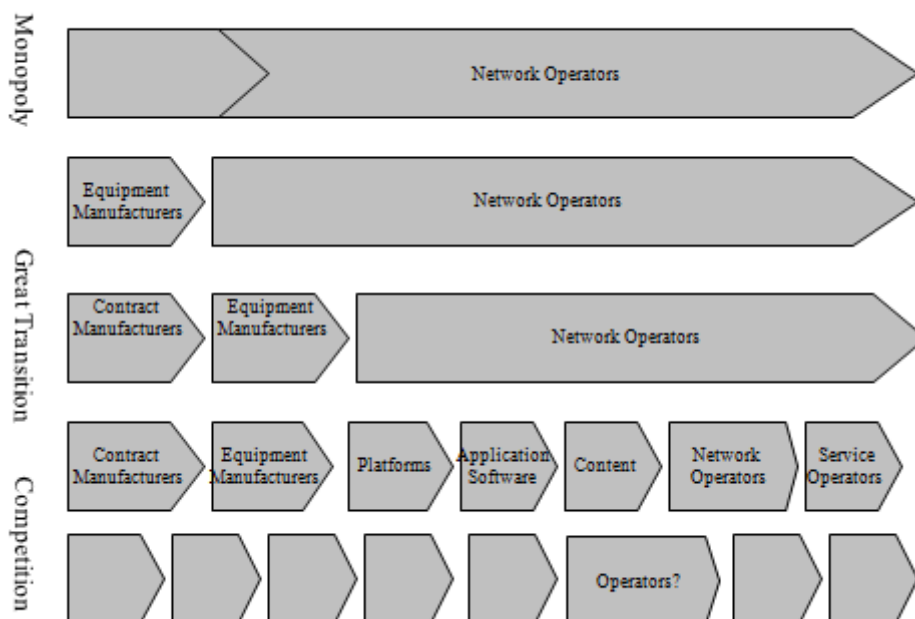
To demonstrate this progress in the wireless technology industry, Steinbock (2003) defined three different development phases: monopoly, great transformation, and competition (see Figure 6.1). In the *monopoly phase*, the whole value chain was operated by one company, a national monopoly telco. During the *great transformation*, though, independent equipment manufacturers started to take a more important role<sup>27</sup>. In the *competition phase*, the value chain disintegrated even more and the relative importance of the national telcos decreased significantly. Telcos were not anymore able to provide all the services themselves, rather the new system consisted of a mobile ecosystem of several different actors: software developers, new infrastructure suppliers, and content and service providers, such as banking by mobile and over internet systems, mobile and online games, and videos and other information services (Huurros and Seristö, 2002, Peppard and Rylander, 2006). Similar developments could be seen in other business areas in the industry, such as data communications.

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<sup>26</sup> Digitalisation was one of the key technological factors that enabled this transformation from value chains to value networks Peppard and Rylander (2006).

<sup>27</sup> Telecommunications equipment manufacturers were actually the first companies in the industry who started to internationalise rapidly.

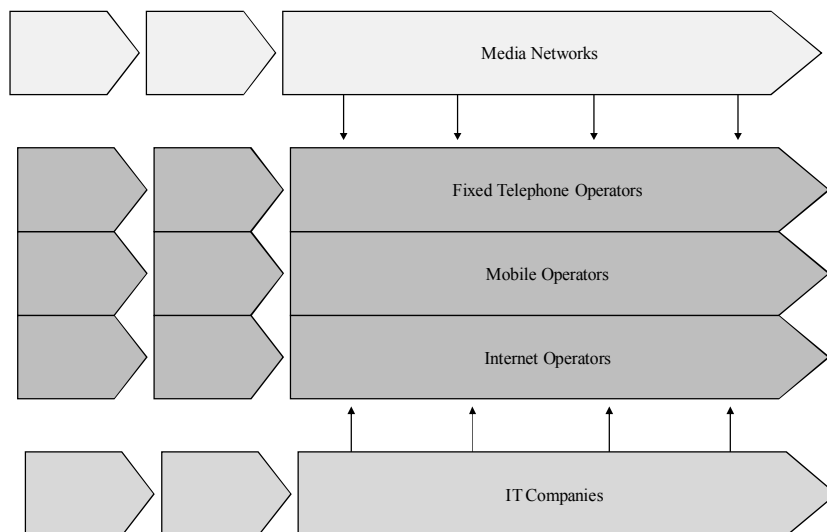
**Figure 6-1 Vertical disintegration of value chains into value systems**



Adapted from Steinbock (2003)

In addition, the convergence across the telecommunications, IT, and media industries has caused value chains to integrate horizontally (Sabat, 2002). In Figure 6.2 these developments are illustrated. All these developments changed radically the operating environment of traditionally monopoly-based telcos. The strong power imbalance between the different organisations in the industry that telcos did utilise earlier was changing (Keil and Autio, 1997, Steinbock, 2003). Telcos faced challenges in the form of intensified competition in the ICT ecosystem as their share of the total revenues and market shares of each individual part of the business started to shrink considerably. For example, the internet provided alternative distribution channels and new players entered in markets (Sabat, 2002). Also the shift of R&D from telcos to manufacturers lowered the technological entry barriers to telco markets, as manufacturers now offered ‘black-box’ technologies to all telcos, both incumbents and new entrants (Li and Whalley, 2002).

**Figure 6-2 Convergence within the Telecommunication Industry and in the ICT-industry**



Telcos were able to compensate for this at some level by entering new rapidly growing business areas such as internet and mobile. However, they were also forced to start looking for new growth opportunities across their national borders (Antonelli, 1997, Sarkar et al., 1999, Sabat, 2002, Stienstra et al., 2004). This was a significant change from the old cartel-type of industry structure, in which monopoly telcos controlled their domestic markets, and were unwilling to enter international markets, preferring to partner with other monopoly telcos in interconnection and other symmetrical partnerships (Kramer and Ní Shuilleabháin, 1997, Balsinde et al., 2000). Antonelli (1997) described this old situation as a ‘global oligopolistic network’. However, the new more asymmetric situation was very different, motivating and pressuring telcos to grow internationally (Antonelli, 1997, Balsinde et al., 2000).

Li and Whalley (2002), who explored the complexity of value networks, argued that new research is needed in this still rapidly evolving area. They emphasised that *“To survive and thrive in this new environment, every company needs to understand their positions in each of the value chains within the value network, and to re-evaluate their strategies and business models, especially their revenue models”* (Li and Whalley, 2002, p. 469). In his analysis of the mobile communications sector, Sabat (2002) called these new positions as



'sweet-spots' in value chains and emphasised the need to understand these changes in order to capitalise on them. Opportunities emerged for the players who were able to identify and utilise the 'sources of value in the network' (Peppard and Rylander, 2006).

As mentioned in Chapter 4, although value networks were not developed to analyse internationalisation processes, they demonstrate well the need for companies to look for new markets, including international ones. It could be argued that some of the spots/areas in the telecommunications value network follow global logic, whereas some others are more local in their nature. There were predictions that telcos had to become more focused with regards to their product strategies and then aim for global economies of scale advantages in these selected areas (Balsinde et al., 2000). However, as Keil and Autio (1997) noted, it has been hard to predict what form this change and these new structures would take as the technology has been changing so rapidly. Thus, following Li and Whalley's requirement, research on this still current topic is required, including studies on the evolution of value networks and the strategies of the different players in it.

#### **6.4.7 Industry Growth: The Telecom Boom and Bust**

Value networks concept is useful to describe the structure and changes to structures in the telecommunications industry. However, it is argued here that it is also necessary to complement the model by including analysis of the pace of internationalisation and growth of the industry to understand better the internationalisation processes of individual telcos. As Fjeldstad et al (2004', pg. 178) stated:

*...evolution of time shapes firm-level strategy and should affect industry competition when there are strong first-mover advantages, particularly in industries with strong network externalities.*

The intensified competition among telcos, discussed in the previous section, combined with still remaining regulation (for example, limited licences) and the need to achieve economies of scale advantages in new business areas resulted in rapid market share building and consolidation developments in the industry (Sarkar et al., 1999, Sirel and Waverman,

2000, Li and Whalley, 2002, Fjeldstad et al., 2004, Whalley, 2004). That is, there were strong first mover advantages in the oligopolistic markets - a race in which many argued the largest companies would emerge as winners (Sarkar et al., 1999, Ramamurti, 2000, Fjeldstad et al., 2004)<sup>28</sup>. This supports the general findings on first mover advantages in network industries and other oligopolistic industries, as discussed earlier. It could also be argued that the general globalisation developments accelerated these developments further. Several researchers have identified these types of developments in the telco sector as follows:

- 'Bandwagon effect', in which telcos in an oligopolistic market actively and rapidly follow their competitors' actions (Granstrand, 1994); and,
- 'Urge' and 'Race for European eminence', as named by Bohlin and Granstrand (1994) when defining the internationalisation of the European telcos in the early 1990s;
- The US telecommunication firms 'mimicrying' each other and 'rushing' to enter other developed-country markets in the late 1980s and early 1990s (supporting Knickerbocker's findings from other oligopolistic industries) (Gimeno et al., 2005);
- The 'hurry' of large telcos to enter privatised telecommunications markets in Latin America during 1988-1994, emphasising the influence of governmental factors on internationalisation (Ramamurti, 2000);
- 'First mover advantages' resulting in 'early movers/early entrants' 'pre-empting' target markets by achieving economies of scale advantages and creating barriers to entry to late movers ('closing the markets', 'exclusivity window')(Sarkar et al., 1999); and,
- First mover advantages due to the concentration of the markets and network externalities (Fjeldstad et al., 2004).

In summary, internationalisation was driven by market opportunities and failure to utilise these opportunities could result in losing the option to enter markets altogether (Sarkar et al., 1999). In addition to economies of scale advantages, which often included the acquisition of incumbent state-owned telcos, first movers were also able to influence standards and regulations, such as securing periods of no competition and higher prices, in the host countries (Sarkar et al., 1999, Ramamurti, 2000). This was a very different situation from the

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<sup>28</sup> Examples of these types of developments and large telcos making significant cross-border acquisitions in the late 1990s were Vodafone's (UK) acquisition of Mannesmann (Germany), France Telecom's acquisition of Orange, a British mobile operator, followed by its merger with Mobilcom in Germany, Deutsche Telekom's takeover of One2One (UK), and British Telecom's acquisition of Viag Intercom AG (Germany) (Tainio, 2003).

basic assumptions of many economic models in which market entry opportunities are not limited in theory (Sarkar et al., 1999).

As a result of the changes in the industry, it experienced a very rapid growth phase (Fransman, 2004). This growth was especially rapid in the 1990s as well as in recent years. For example, in 1991 the total size of the telecom market in the world was estimated to be US\$ 523 billion, but by 2001 it had grown to US\$ 1,232 billion (ITU, 2001). The major drivers behind this rapid growth have been internet and mobile technologies<sup>29</sup>.

However, it seems that these developments have progressed in phases rather than linearly. Many researchers have identified different types of phases when focusing on the internationalisation of telcos, including also reversal developments:

- Very rapid phase in market entries in late 1980 (due to liberalisation and internationalisation of demand), but also some trial-and-error behaviour (Granstrand, 1994);
- Very large initial investments and rapid market entries in the late 1980s, in contrast to traditional theories, but also some findings that the process has been 'bursty and 'discontinuous' (Sarkar et al., 1999). Sarkar et al. (1999) actually reported a peak in the FDI of telcos in 1990, then reversal developments until 1992, and a new peak in 1994 (the last year of their data);
- Whalley (2004) identified two phases in the European mobile markets which surrounded the large 3G auctions in the UK and Germany in mid 2000. In the 'pre-licensing period' mobile penetration rates grew rapidly and stock markets encouraged telcos to look aggressively for new growth opportunities, whereas in the 'post-licensing period' telcos had accumulated large debts from the licence payments and were forced to sell assets and de-internationalise after their credit ratings started to be downgraded (Whalley, 2004). Whalley (2004) argued that telcos had transferred from a 'growth to utility stock'; and,

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<sup>29</sup> The CAGR (Compound Annual Growth Rate) of cellular subscriptions was 43.6% in 1995-2002, and this rapid growth has resulted in mobile revenues being one of the main revenue streams in telecom markets (ITU, 2003). Mobile revenues in the world were only US\$ 19 billion in 1991, but by 2001 they had expanded already to US\$ 317 billion (26% of total telecom revenues) (ITU, 2001). In 1992 there were only 23 million cellular subscriptions in the world, but this had grown to 1143 million in 2002 (Sirel and Waverman, 2000, ITU, 2003). Also, in 2002 there were 592 million internet users in the world (ITU, 2003). These figures demonstrate both the importance of telecommunications for the whole world and the significance of the new technologies for the telecommunications industry.

- Fransman (2002, , 2004) identified two very different phases, the telecom boom and bust during the period 1996-2003, in which the rapid growth phase continued until March 2000. Also Li (2002) reported similar findings. Fransman believed that one of the major reasons for the boom was the perception of a first-mover advantage - a consensual vision shared across the industry.

One important factor discussed in some of the abovementioned studies (especially by Fransman), but not really covered in traditional international business theories, is the strong influence of financial markets on the growth pace of the industry, and on the internationalisation of companies in the industry (Sarkar et al., 1999, Fransman, 2002, Tainio, 2003, Fjeldstad et al., 2004, , 2004). As Fransman (2002, , 2004) argued, financial markets tend to go to extremes, which results in very strong cyclical changes in growth, booms and busts. During the boom many telcos were strongly encouraged by the financial markets to internationalise and followed consensual visions across the industry (Fransman, 2002, 2004). At the same time the general positive sentiment towards globalisation had increased significantly, as discussed in Chapter 3. Moreover, during the boom phase the stock prices of aggressive telcos rapidly rose, increasing the growth expectations of shareholders to unrealistically high levels, further accelerating the growth cycle (Balsinde et al., 2000, Curwen, 2001, Fransman, 2002, 2004). Telcos that were not aggressive internationally (such as DoCoMo in Japan) were ‘punished’ in the financial markets (Curwen, 2001).

The abovementioned pressures by financial markets may also have resulted in some conflicts of interests and decisions based on biased information sources (Fransman, 2002, 2004), issues that are related to agency theory and bounded rationality, and were overlooked in many of the economic and process models of internationalisation<sup>30</sup>. That is, some of the overly aggressive strategies may also have been motivated by managers’ incentives and resulted in expansions that may not have been optimal in the long run (Trillas, 2002, Waverman and Trillas, 2002).

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<sup>30</sup> Fransman discussed agency theory in his papers; that is, the conflict of interest between the internationalising telcos on one side, and their managers and investment bankers on the other.

Thus, pressures from stock-markets and the overall market sentiment and business environment resulted in high market values of telcos, but this changed rapidly in early 2000 (Curwen, 2001, Waverman and Trillas, 2002, Jagannathan et al., 2003). At that time the prices of services started to decline due to intensified competition, as discussed in the previous sections, and telcos' revenues in many business areas shrank considerably, which posed significant challenges in an industry with high-fixed costs (Fransman, 2002, Jagannathan et al., 2003). This was especially challenging for telcos who had operated at high risk and debt levels, and with the most ambitious expansion plans in the 1990s (Jagannathan et al., 2003). Some of the major events that contributed to these developments and to the change in sentiment were the auctions for 3G licences and oversupply of data networks after the rapid investment phase (Sirel and Waverman, 2000, Waverman and Trillas, 2002, Jagannathan et al., 2003)<sup>31</sup>. This increased pressure from financial markets on telcos to reduce growth rates and, essentially, to reverse developments (Fransman, 2002, 2004). During the rapid growth phase many of the challenges and structural problems of telcos were manageable, but after the decline in stock market values in the 'IT crash' these had to be addressed (Li, 2002), further accelerating the slowing of activities. Many telcos addressed these challenges by cutting costs, but for all of them this alone could not save them and/or help in achieving their objectives (Jagannathan et al., 2003). Thus, many telcos were forced to restructure significantly their operations, including engaging in divestments, spin-outs, mergers, and IPOs (Waverman and Trillas, 2002, Whalley, 2004). The telecom boom had turned to a bust (Fransman, 2004). All this also increased the expectations of further consolidations in the industry (Wieland, 2003).

As discussed earlier, some of the most valuable theoretical studies on the internationalisation processes of telcos were concluded prior to these developments, thus they

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<sup>31</sup> For example, in the UK alone the 5 new 3G licences granted in April 2000 were worth 22.5 billion pounds (Sirel and Waverman, 2000), and in Europe a total of US\$125 billion was spent on auctions of 3G licences and the same amount was required to build the networks (Waverman and Trillas, 2002). All this generated significant amounts of debt for many of the major telcos (Waverman and Trillas, 2002, Jagannathan et al., 2003). Also, these commitments were made upfront, as at this time there were yet no 3G handsets available commercially (Economist, 2003).

were only able to question the possible sustainability of the rapid process and some of the most optimistic expectations at the time (Granstrand, 1994, Sarkar et al., 1999). Although several studies had identified different phases in which the internationalisation of telcos had proceeded at a very different pace, there is little research and 'no clear patterns' have been identified on how different telcos have reacted to these changes (Whalley, 2004). Thus, it could be argued that the current nature of these changes emphasises the need for further research on this issue.

#### **6.4.8 Company Specific Factors**

As discussed in Chapter 4, many internationalisation theories have overlooked the role of company specific resources in an internationalisation process. Although many of the industry specific factors, mentioned in previous sections, resulted in herd-behaviour and mimicry at the early phase of the internationalisation process of telcos, there are several findings which demonstrate that company specific factors should be integrated better into internationalisation models, especially when analysing the most recent developments in the industry (Graack, 1996, Stienstra et al., 2004). Stienstra et al. (2004) emphasised this in their study on strategies of the largest mobile operators in Europe. They found that while the strategies of the case companies resembled each other in the early phases, in the later phases they implemented differentiated company specific strategies. Also, Gimeno et al. (2005) reported increasing variations in the strategies of the US-based Baby Bell operators over the course of time due to their different resource-bases; and Gerpott and Jakopin (2005) found that there were significant differences in the internationalisation developments among telcos. When telcos extended their operations beyond traditional and protected domestic markets new resources were required (Granstrand, 1994, Winterscheid and McNabb, 1996). Thus, relevant questions remain concerning the type of resources the successfully internationalised telcos possessed and whether these changed over time. This issue will be discussed further in this section.

The resource-based view, discussed in Chapter 4, classified resources into four main groups: physical, human, organisational and financial resources. Traditionally telcos had not operated internationally, thus their resources were based on operations in domestic markets (Kramer and Ní Shuilleabháin, 1997). As discussed in the previous sections, telcos used to base their competitive advantage on control of networks, that is, a physical resource; and on technical know-how as a human resource (Granstrand, 1994, Keil and Autio, 1997, Steinbock, 2003). Also, due to the need for close relationships with governments, and to understand better and influence regulations, political competences were required (Granstrand, 1994, Kramer and Ní Shuilleabháin, 1997, Gual and Waverman, 1998, Ramamurti, 2000). This resulted in strategies and resources of old incumbent telcos focused on regulatory issues and related activities, instead of on the development of value-added services for customers (Keil and Autio, 1997, Henisz and Zelner, 2001, Alleman, 2002, Waverman and Trillas, 2002). Gual and Waverman (1998) went as far as to argue that, with a few rare exceptions, in the 1970s and early 1980s most telcos were inefficient service providers.

The emphasis on domestic-based resources also created some natural resistance with regards to international operations among the telcos (Kramer and Ní Shuilleabháin, 1997). This supports the findings of the role of risk and uncertainty in the process of internationalisation, and Luostarinen's concept of 'lateral rigidity' discussed in Chapter 2. Thus, when analysing the first internationalisation activities of telcos from the resources point of view, it can be seen that many of these activities were explained by technology gaps between the home country and a host country (Antonelli, 1997). That is, telcos which operated in more developed markets were able to extend their operations to less developed markets by utilizing their technological competences. It could be argued that this model was at some level similar to the patterns explained by the product cycle theory. For example, Maitland et al (2002) argued that mobile technology had become a strategic asset for European companies, which they were then able to utilise in other markets.

However, the further the internationalisation developments proceeded, new resources were required. There was a shift in telcos' resources from technical to managerial and marketing know-how (Granstrand, 1994, Sarkar et al., 1999, Ramamurti, 2000, Alleman, 2002), which created some discontinuities in their strategies (Antonelli, 1997). The further the process progressed, the more managers' strategic decision making freedom increased (Stienstra et al., 2004). It could be argued that with regards to internationalisation, managerial resources, such as international experience and vision of the senior managers, are very relevant. However, so far these types of resources have received relatively little attention in the research on telco internationalisation. As already discussed in Chapter 2, these factors may have a greater influence on the internationalisation strategies of companies than traditionally acknowledged. Wallace and Teeling (1999) emphasised the role of good quality senior management behind the successful internationalisation of telcos, and as discussed in the previous section on industry growth and financial markets, some management-related issues may be closely related to a company's international ambitions. That is, in rapid industry changes the role of managers becomes relatively more important than earlier, as was also noted in the airline industry (Lehn, 2002, Waverman and Trillas, 2002). However, this was a challenge for many telcos, as many managers based their competences still on technical rather than market knowledge (Steinbock, 2003). There was a clear gap in management skills, as rapidly developing technologies and a changing business environment required innovative and dynamic management (Ure and Vivorakij, 1997).

A company specific factor that has often been included in the discussion on internationalisation is the size of a company. In the telco sector this can also be linked to economies of scale advantages (Balsinde et al., 2000, van den Bosch et al., 2004), although, as discussed in Chapter 5 on network industries, at some level the economies of scale in the telco sector may be more relevant at the local level than internationally. However, whereas major parts of the telecommunications networks may be very location-bound, several other economies of scale-related resources, such as global brands, have been growing in importance



(Kramer and Ní Shuilleabháin, 1997). This issue will be discussed further in the section on organisation strategies of telcos.

Another important factor, closely related to that of a company size and limitations to internationalise, is financial resources of a company. Several studies have discussed the importance of financial resources for telcos' internationalisation (Antonelli, 1997, Kramer and Ní Shuilleabháin, 1997, Heracleous and Singh, 2000, Ramamurti, 2000). That is, significant financial resources are required from telcos to implement successful globalisation strategies. It could be argued that this is an especially important issue in a capital-intensive sector in which investments in physical networks and full or partial acquisitions of existing incumbents are very large and the pace of internationalisation rapid. Thus, it has been often reported that large telcos with significant financial resources override smaller ones in the international telco sector (Heracleous and Singh, 2000).

#### **6.4.9 Internationalising Customers**

In the review of business services in Chapter 5, the concept of follow-the-customer strategy was discussed. It was argued that in these types of services the internationalisation processes can be very rapid due to lower uncertainties and risks. For many telcos some of their MNE customers acted as a driver to internationalise in the first place, as they required global telecommunications services (Bohlin and Granstrand, 1994, Granstrand, 1994, Karpakka, 1994, Graack, 1996, Antonelli, 1997, Sarkar et al., 1999, Balsinde et al., 2000). Also, it needs to be noted that many of the global telecommunications manufacturers were suppliers/partners for telcos, and this may have had an influence on their internationalisation patterns (Bohlin and Granstrand, 1994). It could be argued that these factors have made it possible for telcos to internationalise more rapidly, and that in this type of environment the network approach to internationalisation would offer a better explanation of internationalisation processes of telcos than the traditional models. However, there is still

limited research on these questions; that is, are telcos using more customer-seeking or market-seeking strategies in their internationalisation?

## **6.5 Internationalisation Strategies of Telcos**

In the previous sections the factors influencing telcos' internationalisation strategies were discussed. In this section research on these strategies and their development over time will be reviewed.

As mentioned earlier, increasing competition and decreasing market shares in domestic markets acted as a push force for telcos to look for growth opportunities internationally. Internationalisation/globalisation was mentioned to be one of the greatest challenges for telcos (Bangemann, 1997, Steinbock, 2003). Whereas most of the telecom equipment manufacturers developed into global players relatively rapidly, for most telcos the internationalisation processes started much later and their global scope was much smaller than for the equipment manufacturers (Steinbock, 2003).

For the telcos that internationalised, the first mover advantages in the oligopolistic industry combined with limited opportunities in the domestic markets, discussed in the previous section(s), caused international operation and market strategies to be very rapid and irregular rather than gradual (Sarkar et al., 1999). That is, the factors discussed in the previous sections have influenced the operation and market strategies of telcos, and the pace of the internationalisation. As Sarkar et al (1999) and Fjeldstad (2004) argued, the existing internationalisation theories need to be complemented to include these industry specific factors to be able to explain at some level the unique internationalisation patterns in the telco sector. Moreover, whereas the findings of the early phases of telco internationalisation report very opportunistic herd-behaviour, Stienstra et al (2004) and Gimeno et al. (2005) suggested that in the later phases more differentiated strategic choices diversified the internationalisation patterns of telcos further. The following sections will continue the

discussion on internationalisation strategies of network industries of Chapter 5, and will review the internationalisation strategies of telcos, particularly their product, operation, market and organisation strategies.

### **6.5.1 Product Strategies**

As already mentioned, telcos traditionally based their operations on physical networks and were very typical network industry companies reflecting four service classifications: capital-intensive, location-bound, asset-based, and soft-services. Also, they have implemented integrated product strategies in their domestic markets, offering fixed, mobile and data services. This leads to one of the key questions with regards to their international product strategies: have they implemented integrated or niche product strategies in international markets?

Many researchers argued that on a global scale, niche based strategies, such as increasing specialisation on mobile, data, basic networks or long-distance services, would become the dominant and winning strategies for telcos (Antonelli, 1997, Balsinde et al., 2000, Steinbock, 2003). That is, telcos would need to focus their resources on a few key areas and then try to achieve necessary scale advantages in these areas. Balsinde et al (2000) argued that the survival of traditional integrated telcos would be challenged, especially the smaller ones. For example, many of the first globalising telcos were specialised firms in mobile and/or data/internet businesses, such as Vodafone, the UK-based mobile phone company that bought Mannesmann in Germany in June 2000, and started its expansion to be the major pan-European mobile operator (D'Aveni, 2002). More generally, recent developments in mobile communications and the internet seem to have caused some of the traditional telcos to implement more focused strategies internationally than in their domestic markets (Granstrand, 1994, Balsinde et al., 2000). Overall, mobile communications have been the most common product for telcos to internationalise, followed by the modernisation of the old

incumbents' networks (Antonelli, 1997, Sarkar et al., 1999). In fact, in many new (developing) markets mobile communications was the first option for customers<sup>32</sup>.

On the other hand, some other studies have emphasised that in addition to scale advantages, economies of scope and horizontal integration with regards to product strategy are also still very important for telcos (Fransman, 2002, Sabat, 2002). These types of business models for telcos would resemble that of retailers more generally, by packaging several products in a portfolio offered to an end customer. There are also some findings of other types of product strategies that telcos have implemented, for example, by utilising their management and technical resources by selling consulting services internationally (Sarkar et al., 1999). However, so far there is insufficient data and no clear evidence on these issues.

### **6.5.2 Operation Strategies**

As already discussed in Chapter 5, in network industries the product strategies are very integrated with operation strategies: a physical network is required before the service can be provided, which brings in the requirements for very committed operation modes already at the early phase of the internationalisation process. Moreover, other factors discussed earlier in this chapter have had a significant influence on the operation strategies of telcos, particularly deregulation/regulation, the strong role of governments, and the industry structure and growth (first mover advantages) (Sarkar et al., 1999, Fjeldstad et al., 2004).

The assumption of committed operation models early has been confirmed by several studies reporting substantial international investments by telcos at the early phase of their internationalisation (Antonelli, 1997, Sarkar et al., 1999). For example, several researchers (Wallace and Teeling, 1999, Balsinde et al., 2000, Trillas, 2002) predicted and reported active cross-border mergers and acquisitions between telcos. Antonelli (1997) reported considerable outward FDI growth figures for telcos when compared to most other industries. Especially the largest telcos from North America and Europe were reported to have made significant

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<sup>32</sup> For example, in Africa mobile technology has already exceeded the fixed line services (Mureithi, 2003).

international takeovers and acquisitions of smaller local telcos in the late 1980s and early 1990s (Antonelli, 1997, Sarkar et al., 1999, Waverman and Trillas, 2002). Sirel and Waverman (2000) argued that because of the limited number of opportunities in the European mobile communications sector, due to licensing policies by governments, the ideal operation strategy for the major European mobile operators would be to acquire existing telcos rather than establish greenfield operations. Moreover, some studies reported that some large telcos preferred committed operation modes, as they were reluctant to share some of their proprietary technologies with local partners, such as host governments (Doh et al., 2004). Overall, many argued that large telcos in particular tried to establish actively their presence with rapid FDI (Wallace and Teeling, 1999).

On the other hand, many other studies have emphasised that regulations and the strong role of governments were limiting factors that resulted in alternative operation strategies for telcos, such as alliances and JVs (Granstrand, 1994, Sarkar et al., 1999). This supports also the earlier discussion on network industries. Even in the case of successful acquisitions, studies have reported some political interventions and constraints (Trillas, 2002). Sarkar et al (1999) found that in many cases host countries forced internationalising telcos to enter into a JV with a local partner, or the government itself. Granstrand (1994) actually argued that acquisitions and greenfield operations have been rare operation strategies for telcos, except in some data services. Correspondingly, Graack (1996) reported a strong focus on global alliances, and argued that their importance will grow further in the future. Also Balsinde et al. (2000) acknowledged the importance of alliances and JVs, and Gerpott and Jakopin (2005) reported that most early entries of telcos were in minority JVs, rather than majority ones.

It needs to be noted that there have also been some findings of export-types of operations by telcos, such as services sold based on satellite communications and call back services (Antonelli, 1997, Ramamurti, 2000), or trans-human exports such as consulting services, as briefly mentioned in the previous section. These and the above mentioned

findings would support Granstrand's (1994) arguments that traditional process theories are applicable to telcos at some level. However, research on this issue is still scarce and existing findings contradictory.

An issue closely related to international operation strategies is that of vertical integration/disintegration, discussed earlier in section 6.4.6. It could be argued that the more integrated a telco is, the more commitments and risks there will be with regards to internationalisation. Thus, at least from investors' perspective, telcos should disintegrate their operations vertically in order to allocate sufficient resources for horizontal (geographical) integration internationally (Antonelli, 1997, Li and Whalley, 2002, Trillas, 2002, Steinbock, 2003). Vertical disintegration also enables outsourcing and cooperation strategies with other organisations (Li and Whalley, 2002).

One specific example of vertical disintegration that has included separation of network operations from service provisioning is that of mobile virtual network operators (MVNOs), such as Virgin Mobile (Maitland et al., 2002, Sabat, 2002, Ulset, 2002):. These are mobile operators who do not own the network, but operate their services in a network owned by another telco. It could be argued that this type of model would be an optimal way to internationalise, even with limited resources, as investments would be lower than for a full-network operator, the strategy is overall more focused, and allows for more rapid internationalisation than would otherwise be the case (Ulset, 2002). However, so far there is little evidence of the success and emergence of these types of operators internationally (Ulset, 2002). For example, two of the most internationalised mobile operators, Vodafone and Hutchison, implemented strategies still mostly based on owning networks. Perhaps factors such as asymmetric information in the product development and governance costs in co-operation result in high transaction costs, causing traditional integrated models to be still more competitive in this business area (Ulset, 2002). Moreover, some still remaining regulatory issues and differing standards have been significant additional barriers for the

development of further MVNOs (Sabat, 2002). It could also be questioned how well these types of operations would fit the strategy of a national telco whose operations are very integrated domestically.

As discussed above, several researches have reported that alliances and JVs have been the preferred entry mode in international markets for many telcos, echoing also the discussion on cooperation modes in network industries. As covered in Chapter 4, strategic alliances can be divided into two main groups: relational contracting and equity JVs (Gulati et al., 2000, Contractor and Lorange, 2002). It is argued here that this classification is very relevant when analysing the commitments of telcos in their international operation strategies, and often overlooked in many internationalisation studies. As the investments in the telco sector are almost always very large, even JVs include significant investments and commitments. Thus, in this study the term strategic alliance will be used to discuss the non-equity relational alliances unless otherwise mentioned, and investments in equity JVs are referred to as JVs. It could also be argued that it is important to separate in the analysis the alliances/JVs targeting markets in one country only versus multi-country alliances, as the logic for them is often very different.

In Chapter 4 the general motivations for alliances were listed. Findings from the telco sector have identified similar motivations such as smaller investment requirements, risk sharing, increasing the probability to win a licence bid (at least a 'share of the pie'), enabling more rapid internationalisation processes (first mover advantages/window of opportunity), overcoming entry barriers, providing services for MNE customers, defensive strategies (competitive moves against alliances by close competitors/pre-empt partners), scale advantages in purchasing, influencing standards and regulatory processes, developing new services, and complementary skills/knowledge (including local knowledge) (Granstrand, 1994, Graack, 1996, Sarkar et al., 1999, Sabat, 2002, Fjeldstad et al., 2004, Gimeno et al., 2005). Moreover, Graack (1996) reported additional motivation for smaller telcos to form

alliances between each other to be able to improve their position in negotiations with the largest telcos in the industry<sup>33</sup>.

It is notable that telcos have actively entered alliances with their competitors resulting sometimes in a very complex network (Bohlin and Granstrand, 1994, Sarkar et al., 1999, Gimeno et al., 2005). Fjeldstad et al (2004) actually argued that this mix of competitive and cooperative activities is typical for a value network type of industry structure. Although in general the alliances are less successful the more alliance partners are engaged, in alliances between telcos, which include partners from different countries, this has not been the case (García-Canal and Sánchez-Lorda, 2007). It could be argued that this has worked in the telco sector, especially at the early phase of the internationalisation developments, because the telcos were still not direct competitors in each other's domestic markets. If this has been the case, then the question of the sustainability of these types of alliances remains the further competition intensifies.

Sarkar et al. (1999) predicted that developments are moving towards consolidation of the smaller telcos and networks and Graack (1996) argued that the overall importance of alliances in the telco sector will continue to increase in the future, although he did question the sustainability of some of them. Also Balsinde et al (2000) argued that the number of alliances and JVs will continue to increase in the sector. On the other hand, Fjeldstad et al. (2004) reported that although alliances have been common at the early phase of the internationalisation of telcos (for example, in setting standards), their importance will diminish over time as competition between telcos intensifies. Also Curwen (2001) claimed that few telco alliances, although addressing some of the challenges of FDI, have been successful and many of them have been terminated since the late 1990s<sup>34</sup>.

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<sup>33</sup> For example, Unisource was established by PTT Telecom (The Netherlands), PTT (Switzerland), Telia (Sweden) and Telefonica (Spain).

<sup>34</sup> Some examples of the largest intra-industry alliances between telcos have been Concert, Global One, Infonet, Iridium, Unisource, and WorldPartners (Graack, 1996, Noam and Wolfson, 1997, Sarkar et al., 1999, Bonardi, 2004).



Many of the same drivers apply to JVs as to alliances, such as risk sharing and more rapid growth processes, and they are widely used international operation modes in the telecommunications sector. Sarkar et al. (1999) actually argued that most of the cooperation modes of telcos include equity partnerships/investments. The difference between relational strategic alliances and JVs, in addition to the equity investment, seems to be that whereas the strategic alliances in the sector are often established at the global level and/or between multiple-partners, JVs in most cases are established to serve one country. Often this means that an internationalising telco brings technological and managerial knowledge, capital, and credibility, and the local partner has knowledge of the local markets and government, and brings also some local capital (Sarkar et al., 1999, Ramamurti, 2000). The local partners in the host country are usually either a local investor (more common in Western European JVs) or the state (especially in Eastern European JVs)(Sarkar et al., 1999). There are also some JVs between telcos and IT-companies, and some between incumbent telcos themselves (Antonelli, 1997), the latter including bidding consortia (Sarkar et al., 1999).

Another little studied but relevant area is that of minority vs. majority JVs of telcos. It could be argued that the difference between these two types of JVs is significant, especially with regards to organisation strategies and control on issues such as product strategies. However, studies that analyse these differences and developments over time are still scarce, although JVs are widely used in the sector. Some more recent studies have reported on developments that involve telcos moving from minority JVs towards majority JVs and subsidiaries (Whalley, 2004, Gerpott and Jakopin, 2005)<sup>35</sup>.

Finally, a specific area with regards to operation (and market) strategies is that of de-internationalisation, as discussed earlier in Chapter 2. Based on the challenges that some of the telcos have faced, due to factors discussed earlier, such as telecom boom and bust and

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<sup>35</sup> Gerpott and Jakopin (2005) actually reported significant changes on this issue in their study of 14 large European mobile network operators. They found that whereas minority JVs were the preferred operation mode in the early 1990s, by 2003 most of the international operations were controlled with majority ownership modes.

related issues, de-internationalisation developments in the telco sector have been common. This can be attributed to the changes in industry growth discussed earlier, and related excessive risks, over investments, and debt levels (Waverman and Trillas, 2002). After the adverse changes in financial markets in the early 1990s, substantial restructuring and divestment occurred in the sector, resulting in a decline in the overall growth of the industry (Kramer and Ní Shuilleabháin, 1997, Fransman, 2002, Waverman and Trillas, 2002, Curwen, 2004), as already discussed in section 6.4.7. These findings demonstrate well the importance of context, such as industry specific factors, when analysing the internationalisation process of a company.

### **6.5.3 Market Strategies**

There are some contrasting findings with regard to telcos' market strategies. Granstrand (1994) emphasised three factors in telcos' target market selection: the size of the market, learning opportunities, and psychic distance, thus giving support to the traditional process theories. However, most studies have found the process to be very rapid when compared to traditional theories based on manufacturing companies. It could be argued that the globalisation developments, discussed in Chapter 3, have influenced also the strategies of telcos. These general globalisation developments also required that telecommunications services be global, creating a need for telcos to have global presence and infrastructure (Bangemann, 1997). This led to the situation where telcos with global aspirations aimed to position themselves rapidly in major markets (Granstrand, 1994)<sup>36</sup>. These key target markets were then followed with entries to some smaller but selected developed countries for learning purposes (Granstrand, 1994). In addition to rapid entry to the major target markets, many telcos had significant investments in the capacity of trans-ocean networks (Cave and Waverman, 1999).

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<sup>36</sup> For instance, large telcos such as AT&T, MCI and NTT attempted to enter European markets rapidly (Winterscheid and McNabb, 1996), and in these markets the UK, France and Germany, the three largest European economies, were the first target markets for these operators (Granstrand, 1994). Also, Vodafone aimed initially to have a presence in several continents (Curwen and Whalley, 2006).

In contrast, some other studies emphasised the context specificity and significant deviations from traditional internationalisation processes, especially irregularities in findings with regards to psychic distance. These studies supported the findings from other network industries and the psychic distance paradox. They also emphasised the need for telcos to preempt the major markets/opportunities, but found that many of the early entries were into markets that did not support the predictions of the traditional theories (e.g. Sarkar et al., 1999). These were entries of telcos from large developed countries to developing and emerging markets, such as Latin America, Eastern Europe and Asia (Antonelli, 1997, Sarkar et al., 1999, Bonardi, 2004). Bonardi (2004) claimed this to be partially explained by stricter entry barriers in many developed countries, especially if there were issues with reciprocal entry in cases where the home country of the internationalising telco in question still protected the telco's domestic markets, whereas many recently deregulated developing countries did not require reciprocity<sup>37</sup>. Moreover, Ure and Vivorakij (1997) noted a significant increase in the number of privatisations in developing countries in the telco sector (and in many other network industries) in the late 1980s and early 1990s. These privatisations resulted in many telcos, especially from large developed countries, acquiring equity positions in domestic telcos in these countries, especially in Latin America and Eastern Europe (Antonelli, 1997). The host countries often lacked financial and technological resources required to invest in their underdeveloped telecommunications infrastructure, and thus were willing to open their telco sector to international investors and partners (Winterscheid and McNabb, 1996, Ure and Vivorakij, 1997, Heracleous and Singh, 2000, Ramamurti, 2000).

This gap between the developed and developing countries offered significant opportunities for telcos from developed countries with regards to their internationalisation (Kellerman, 1993, Hudson, 1997, Henisz and Zelner, 2001). Based on these findings, it could be argued that at some level the product cycle theory is applicable in the telecommunications

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<sup>37</sup> Kellerman (1993) reported that some large developed countries, such as France and Germany, had less deregulated markets with regards to government ownership than, for example, Argentina or Mexico.

services sector, at least in the early phases of internationalisation. Furthermore, there has been some evidence of telcos from large countries, such as France (FT), UK (C&W), Spain (Telefonica), Italy, and Portugal, benefiting from their colonial past by entering the countries that used to be their old colonies (Bohlin and Granstrand, 1994, Antonelli, 1997, Ramamurti, 2000, Li, 2002, Curwen and Whalley, 2006). Although in this latter case the psychic distance concept may be less relevant, overall the entries of telcos from developed countries to developing markets would support the psychic distance paradox.

However, there were some restrictions also in most developing countries. Some questioned the developing countries' handing over of the control of their infrastructure; that is, the debate was between modernisation of the infrastructure vs. independency and control of the infrastructure (Tan, 2002, Wang, 2003). Moreover, in many host countries the law still required telcos to be state controlled, and the role of governments was often closely linked with that of the leading families, military, and religious leaders (Ure and Vivorakij, 1997). Instead of full-ownership modes this resulted in some other modes being preferred, such as JVs with local partners (Ure and Vivorakij, 1997), linking market and operation strategies closely together. In some developing countries, such as China, the government still restricted the foreign ownership of telcos altogether (Ure and Vivorakij, 1997, Tan, 2002)<sup>38</sup>.

There is also evidence that instead of so called 'globalisation' developments in the sector, many internationalised telcos are regional with regard to their market strategies (Kramer and Ní Shuilleabháin, 1997, Noam and Wolfson, 1997, Curwen and Whalley, 2006). For example, to build a global presence would require significant resources from a telco. This may be the reason why Whalley (2004) identified two different types of telcos: large telcos with presence in the major markets, and smaller and more regionally oriented ones. Also Balsinde et al.'s (2000) findings included data on both globally oriented and more local/regional telcos, and Steinbock (2003) claimed that value networks/systems are region-

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<sup>38</sup> China encouraged foreign investments in telecommunications manufacturing, but prohibited them totally in the telecommunications service sector (Tan, 2002).

based with differences among each other with regards context and local advantages. Other reasons for these types of developments were reported to be many standardisation activities that still occur at a regional level (Noam and Wolfson, 1997); entry barriers and management difficulties (Kramer and Ní Shuilleabháin, 1997); differences in government policies, and business practices (for example, in Asia vs. other regions) (Ure and Vivorakij, 1997, Heracleous and Singh, 2000); and the role of regional capital, especially in Asia (Ure and Vivorakij, 1997). These findings support Rugman's research discussed earlier in Chapter 3<sup>39</sup>.

In summary, the factors discussed earlier in this chapter seem to have also influenced market strategies of telcos. Whereas psychic distance is a key concept of internationalisation process theories, in the telco sector there are also many other factors which have significantly influenced market strategies (Sarkar et al., 1999, Sabat, 2002, Stienstra et al., 2004). Some of the abovementioned what, at some level, are contrasting findings, could also be explained by the different time periods of the studies. As discussed earlier, in the telco sector the environment has developed rapidly over time, influencing the internationalisation strategies of telcos. Overall, more research is required on the market strategies of telcos, especially including the more recent developments and more data on telcos from other than the largest economies.

#### **6.5.4 Organisation Strategies**

As discussed in Chapters 3 and 4, companies often do not decide their operation or market strategies separately for each country. Rather strategic and competitive reasons contribute to these decisions. In other words, in addition to market and cost-related drivers, competitive and strategic drivers also influence how companies internationalise, and especially how they integrate their international operations together. Thus, it is necessary to include a discussion of organisation strategies in any analysis of companies' (including

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<sup>39</sup> It needs to be noted that Rugman, in his relatively strict definitions of global vs regional companies, listed even Vodafone as a regional company. In his study only 9 out of 380 largest MNEs of the world were defined as global (Rugman, 2003a).

telcos') internationalisation. Overall, many of the factors discussed earlier, such as liberalisation developments, and strategic and scale related factors, have been drivers for telcos' to implement global organisation strategies (Sarkar et al., 1999, Balsinde et al., 2000). However, whereas many of the telecommunication manufacturers have implemented global strategies, for telcos there have been significant pressures for local responsiveness as well (Kramer and Ní Shuilleabháin, 1997, Steinbock, 2003), supporting the findings that many network industry companies actually follow multidomestic strategies. To analyse these somewhat conflicting approaches further, organisation strategies of telcos will be reviewed in this section using the typology introduced in Chapter 4.

Several studies argued that the telco sector would be dominated by a few globally organised telcos. Many of the largest US and UK-based telcos, such as AT&T, C&W, and RBOCs, became the first dominating players in the international telco sector, soon followed by large telcos from other large economies, such as NTT, DT, and FT (Granstrand, 1994). Many researchers predicted that developments were towards consolidation and the emergence of the leading global network operators from the largest developed countries, and that companies such as Vodafone with aggressive internationalisation strategies and investments, would emerge as winners (Antonelli, 1997, Wallace and Teeling, 1999, Balsinde et al., 2000, Heracleous and Singh, 2000, Steinbock, 2003). That is, the studies argued that in the long run there would be half a dozen dominant global players or flag-ship companies, which would coordinate their operations across borders, and the smaller telcos would remain regional operators, or even become targets for the larger ones (Bohlin and Granstrand, 1994, Kramer and Ní Shuilleabháin, 1997, Balsinde et al., 2000, Steinbock, 2003, Whalley, 2004).

Researchers have identified several drivers for telcos to become global companies:

- Economies of scale in R&D (for example, developing network and value-added services (VAS), and standardised service platforms) (Kramer and Ní Shuilleabháin, 1997, Wallace and Teeling, 1999, Whalley, 2004);

- Purchasing power in global network contracts, mobile devices (for example, coordination resulting in shorter and coordinated launch times across countries), and content rights (Balsinde et al., 2000, Wieland, 2003, van den Bosch et al., 2004, Whalley, 2004);
- Global customers / travelling customers (for example, standardised service, one invoice) (Wallace and Teeling, 1999, Waverman and Trillas, 2002, Whalley, 2004);
- Global brands (Whalley, 2004);
- Economies of scale in financial competency and resources (Heracleous and Singh, 2000);
- Opportunity to use some local companies as test beds (Whalley, 2004);
- Arbitrage opportunities across different country markets, for example, to improve the bargaining power against home government regulations (Sarkar et al., 1999);
- Availability of low-cost international bandwidth (Kramer and Ní Shuilleabháin, 1997); and,
- Global competition (Heracleous and Singh, 2000).

These consensual views of the requirements for telcos to ‘globalise’ were also reflected in many general articles in the 1990s. For example, Cable & Wireless Optus chief financial officer, Norman Gillespie, stated: “*Globalisation and new technologies such as the Internet were forcing paradigm shift towards international mega-corporations which competed on a global basis.*”; and “*To be a big winner [you have to be] a company with true global reach*”; and “*more mergers and acquisitions would consolidate the industry with mega corporations emerging over smaller players*” (Hold, 1999). An article in Asia Pacific Telecommunications argued that: “*Globalisation is one of a number of important and unstoppable trends in telecommunications.*”; and “*In the emerging global telecommunications market, carriers will seek the economies of scale generated from worldwide operations.*” (Telecommunications`, 1 Oct 1998). Finally, Reuters reported from the ITU Telecom 1995 that: “*Analysts say telephone companies must go global*” (Reuters`, 1 Oct 1995). That is, the consensus view was that national markets were becoming global, in which large global telcos with global brands would succeed (Telecommunications, 1998).

As already briefly discussed in section 6.4.7, this consensus view resulted in intensified competition and takeover battles between the major telcos, such as the big five

incumbents (AT&T, DT, BT, FT and NTT), and new large players in the industry, such as World Com and Vodafone (Balsinde et al., 2000, Li and Whalley, 2002, Whalley, 2004).

However, in spite of the advantages and drivers for global organisation strategies for telcos, it still seems that most of the telcos have followed multidomestic strategies with little or no interaction across different country organisations (Antonelli, 1997). These multidomestic telcos had often invested in minority JVs in the target markets and then followed very differentiated product and brand strategies across them (Antonelli, 1997). There may be benefits from technology and knowledge transfers from the home country, but otherwise the knowledge sharing was minimal as well. For example, Bonardi (2004) found that Spanish Telefonica's defensive strategies in their domestic markets were very different from their aggressive offensive strategies in the international target markets in Latin America. Also Lehn's (2002) findings emphasised the differences between challengers and incumbents in areas such as governance structure, and Roberts et al. (2001) emphasised the significant asymmetries between incumbents' defensive strategies and challenger telcos' offensive strategies. Thus, when operating in different continents, in countries with different development levels and regulatory frameworks, and when the individual country organisations are in a different market position, to implement a global strategy would be nearly impossible (Bonardi, 2004). It could be argued that multidomestic strategy is the only viable option in these types of situations.

Kramer and Ní Shuilleabháin (1997) even argued that "globalism was the central illusion offered", in their study of the telecommunications services sector, and that few telcos have been able to become even international, let alone global players<sup>40</sup>. Kramer and Ní Shuilleabháin (1997) listed the reasons for these conflicting findings to be several governmental factors, supporting the findings discussed earlier in this chapter. Moreover,

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<sup>40</sup> It needs to be noted that Kramer and Ní Shuilleabháin did acknowledge that this 'illusion' itself influenced the internationalisation strategies of telcos, placing pressure on telcos to become global organisations, and also resulting in real global investments. It could be argued that this is related to the boom and bust in the sector, discussed earlier in this chapter.



Curwen (2004) in his critique of Stienstra et al.'s (2004) study questioned the economies of scale advantages in mobile communications, thus also explaining some of the de-internationalisation activities of many large mobile operators. Even Whalley (2004), in his study of global flagship firms, found many challenges with regards to regulatory barriers, which resulted in some of the subsidiaries of these global telcos being unable to implement global strategies in several business operations. He also reported that this situation had resulted in de-internationalisation from these types of countries by the global telcos. Also Gerpott and Jakopin's (2005) reported challenges in telcos trying to implement global strategies. They found that many mobile network operators tried to increase their ownership in JVs from minority to majority in order to successfully implement global strategies. To implement a global strategy was very challenging if they did not hold control of the individual country organisations. Also, their study reported de-internationalisation developments, when global telcos divested the operations in which it was not possible to gain control (Gerpott and Jakopin, 2005). These findings also demonstrate the strong linkage between organisation strategies, and market and operation strategies. It could be argued that these de-internationalisation activities of some of the largest telcos would also create opportunities for telcos with other than global strategy; that is, telcos who still follow multidomestic strategies. However, no research on this issue has been identified.

Some studies have also reported findings of telcos successfully combining global and multidomestic strategies, and even being able to engage governments in playing a role in these 'hybrid' strategies (Wallace and Teeling, 1999, Bonardi, 2004). Evidence is still very limited, though, as to whether these telcos have implemented transnational strategies, as defined by Bartlett and Ghoshal.

Some of the conflicting findings discussed in this section may be related to time periods of the studies and the overall evolution of the telco sector. For example, Winterscheid and McNabb (1996) argued that at the early phase of development the largest globalising

telcos faced significant challenges in entering European markets, but eventually the markets opened. Thus, research is still required to analyse the evolution of the organisation strategies of telcos.

## **6.6 Summary**

It has been argued in this chapter that pressures to internationalise have been evident for telcos, but at the same time several other factors have limited the process of internationalisation. These factors were identified and their influences on telcos' product, operation, market, and organisation strategies discussed.

Some conflicting research findings were identified and compared with the earlier research on the internationalisation process of the firm. Overall, it was argued that the process of internationalisation for telcos vary significantly from that for manufacturing companies, and for services which are more closely related to goods. Some of these issues were explained by industry specific factors and the evolution of the industry, but also research gaps were identified. Many of the earlier studies had predicted that the largest telcos would dominate in the sector, which led to further discussion of the specific challenges that telcos from smaller economies have faced.

It was argued that more research on the patterns describing internationalisation strategies of telcos is required, including data of the most recent developments in the industry and internationalisation strategies of telcos from small economies.

In the next chapter more general research of the internationalisation of companies from SMOPECs will be reviewed.

## **7 Special Challenges in Internationalisation for Companies from SMOPECs**

### **7.1 Introduction**

In this chapter the special challenges that affect internationalisation strategies of companies from SMOPECs will be investigated. As discussed in the previous chapters, the internationalisation process of a firm seems to be more context specific than traditional models would suggest. One context specific factor that can play an important role in a firm's internationalisation is the home country of a firm (Sethi and Elango, 1999, Contractor et al., 2003, Bellak, 2004, Mayrhofer, 2004). Thus, there is a need for more research on MNEs from various home countries to analyse these context specificities, as suggested by Brouthers and Brouthers (2001).

This chapter presents arguments that this issue is very relevant for companies from SMOPECs, particularly in industries where capital-intensity is high, such as network industries. That is, companies with limited resources face specific challenges that may be similar across SMOPECs. The main factors contributing to these challenges will be identified and internationalisation strategies discussed based on a review of studies of the internationalisation of small country MNEs. Links will be built with the topics discussed in the previous chapters, namely, globalisation drivers for large vs. small firms, a firm's resources, strategic alliances, the network approach, clusters, and the internationalisation of telcos, and services more generally.

### **7.2 Research on Internationalisation of Companies from SMOPECs**

Before continuing further, it is necessary to define what is meant by a SMOPEC in this study. A number of studies have focused on the internationalisation of firms from SMOPECs (Ghauri, 1992, Kirpalani and Luostarinen, 1999, Benito et al., 2002, Maitland and Nicholas, 2002b, Merrett, 2002, Larimo, 2003, Luostarinen and Gabrielsson, 2006). These countries include Austria, Belgium, Denmark, Finland, Ireland, Israel, the Netherlands, New

Zealand, Norway, Portugal, Sweden and Switzerland. In addition, Maitland and Nicholas (2002a) defined countries such as Australia and Hong Kong as SMOPECs. This is justified, as Australia, although often classified as a medium-sized country, faces similar challenges and can learn from other SMOPECs (Lewis, 1999, Liesch et al., 2002, Dick and Merrett, 2007). The inclusion of small newly industrialised Asian countries, such as Hong Kong and Singapore, can also be warranted based on their development levels and free economies<sup>41</sup>. Thus, in this study a broad definition of a SMOPEC including developed medium-sized countries and small and developed newly-industrialised countries, is adopted. All these countries are similar in that MNEs originating from them face special challenges similar to each other.

Many traditional models on internationalisation, especially economic models and studies on FDI, and also many strategic management theories, have focused on the internationalisation of large MNEs from the largest economies of the world, such as USA, UK, Germany and Japan (Carr and Garcia, 2003, Larimo, 2003, Dick and Merrett, 2007). However, there are arguments that the (economic) size of the home country of an MNE can influence their internationalisation strategies (Hirsch, 2006), making it relevant for studies to focus also on smaller countries. This relevancy is emphasised further by the importance that the SMOPEC countries together have in the world economy<sup>42</sup>.

It is often reported that MNEs from smaller countries tend to be relatively more internationalised when compared to MNEs from large countries (Bellak and Cantwell, 1998, Pedersen and Petersen, 2004, Hirsch, 2006). However, in spite of that, at a global level most MNEs still originate in the largest economies of the world (Hirsch, 2006). Also, large country

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<sup>41</sup> For example, both Hong Kong and Singapore are listed among the freest economies in the world (numbers 1 and 2 in the Index of Economic of Freedom each year from 1995 to 2008 (The Heritage Foundation and Wall Street Journal, 2008 Index of Economic Freedom) and their GDP per capita is higher than that of several countries defined as SMOPECs earlier. For example, in 2008 Singapore's GDP PPP per capita was 4<sup>th</sup> highest in the world (IMF, 2008).

<sup>42</sup> The total GDP of SMOPEC countries (when Hong Kong, Singapore, and Australia are included) is larger than that of any individual country except the USA. For example, it is almost twice that of Germany and 2.4 times that of the UK (WB, 2009).

MNEs in general are much larger in size than small country MNEs (Merrett, 2002, Hirsch, 2006). Being a small firm and located outside the main markets can be a disadvantage with regards to internationalisation (Hubbard et al., 2002, Merrett, 2002, Gabrielsson and Gabrielsson, 2004, Dick and Merrett, 2007). Moreover, some researchers (Brouthers and Wilkinson, 2002) have argued that due to the integration of markets, for example in the EU, the local advantages that smaller domestic firms had in the fragmented markets are deteriorating further, and large MNEs from large countries, such as the US and Japan, will gain a competitive advantage due to their larger size and relative efficiency. D'Aveni (2002), in his study of pressure maps, divided companies into orchestrators and targets, and considered that the targets, second-tier companies in globalising industries, often face huge challenges. It should be noted that even the largest MNEs from SMOPECs are mostly second-tier companies when compared with the largest players in the industry.

From this arises a dilemma; MNEs from smaller countries need to grow rapidly in order to survive, often requiring large investments. However, the size of the investment is frequently listed as a major problem by many small country MNEs (Larimo, 1995, Carr and Garcia, 2003). As discussed in both Chapters 5 and 6, in network industries, and particularly in the telco sector, large investments are often a requirement, resulting in these challenges being very significant for SMOPEC MNEs in these industries. Thus, following deregulation and privatisation developments, and due to high-capital intensity and network externalities, first mover advantages seem to benefit mostly the large MNEs in network industries (Buckley et al., 2001). As a result, MNEs from smaller countries with their limited resources often need to find alternative evolutionary paths, and these patterns are in many cases different from those suggested by the general strategic management and internationalisation theories (Carr and Garcia, 2003, Lewis and Zalan, 2005).

All this emphasises the need for more research on MNEs from smaller countries, a view supported by several researchers who have required more comparative studies of

SMOPEC MNEs (Boldt-Christmas et al., 2001, Larimo, 2003, Lewis and Zalan, 2005). This is also in line with Dick and Merret's (2007) suggestion that due to their similarities SMOPECs may be able to learn from each other.

It needs to be noted here that some of the central internationalisation process theories have been developed in SMOPECs, as already discussed in Chapter 2 (see for example', Johanson and Wiedersheim-Paul, 1975, Johanson and Vahlne, 1977, Luostarinen, 1979, Welch and Luostarinen, 1988). However, these and also more recent studies on the internationalisation of SMOPEC firms have predominantly focused on manufacturing industries, whereas most studies on service internationalisation, discussed in Chapter 5, analysed large country MNEs. There is little research on how SMOPEC firms in services sectors more generally, and in network industries particularly, have been able to manage the challenges discussed above. In the rest of this chapter some of these factors are discussed, and the literature on the internationalisation strategies of SMOPEC firms reviewed.

### **7.3 *Small Domestic Markets and Limited Resources***

The main argument behind the challenges for SMOPEC companies in their internationalisation has been the limited size of their domestic markets; that is, they were not able to grow and achieve economies of scale often necessary in a more globalised competitive environment (Luostarinen, 1979, Bartlett and Ghoshal, 1992, Edvardsson et al., 1993, Luostarinen, 1994, Larimo, 1995, Lovelock and Yip, 1996, Madsen and Servais, 1997, Lowell and Fraser, 1999, Czinkota and Ronkainen, 2001, Van den Bulke and Verbeke, 2001, Benito et al., 2002, Hubbard et al., 2002, Maitland and Nicholas, 2002b, Merrett, 2002, Hirsch, 2006, Dick et al., 2007). This can and has significantly limited the ability of SMOPEC firms to become successful MNEs (Merrett, 2002).

Moreover, due to narrow domestic resource pools, SMOPEC MNEs may lack resources in many areas, such as financial and international management resources (Hubbard

et al., 2002, Gabrielsson and Gabrielsson, 2004). Thus, firms from a small home country such as Australia, need to put extra effort into being able to internationalise successfully (Lewis, 1999). Studies have shown that these types of MNEs often operate in industries in which investments required are relatively small (Morkel and Osegowitsch, 1999), and more generally, SMOPECs have not been a source of major outward FDI (Boldt-Christmas et al., 2001).

On the other hand, some successful SMOPEC firms seem to have turned the disadvantage of a small domestic market to a competitive advantage, as overcoming these challenges forced them to internationalise early (Hubbard et al., 2002). SMOPEC firms needed to implement market-seeking strategies in order to grow (Hirsch, 2006, Dick et al., 2007). In other words, small domestic markets acted as a push force to internationalise. For these companies the urge to achieve economies of scale over rode the challenges to internationalise (Larimo, 1995, Benito et al., 2002, Pedersen and Petersen, 2004). Thus, they may have had less lateral rigidity towards internationalisation, the opposite to the situation of large country MNEs, such as US-based companies, who were required to internationalise at a much later phase (or not at all) as a part of their growth strategy (Rugman and Girod, 2003)<sup>43</sup>. In summary, both strong push and pull forces caused SMOPEC firms to internationalise.

#### **7.4 Governments' Role**

As discussed in section 5.6.4, the role of governments is relatively large in services, and especially so in network industries (Crystal, 1999). In addition, many researchers have emphasised the significant role of home governments in developing businesses and supporting the internationalisation of MNEs from smaller countries, when compared to large countries (Heng and Low, 1990, Lewis, 1999, Rugman and Hodgetts, 2001, Benito et al., 2002, Hubbard et al., 2002, Merrett, 2002). Likewise, smaller countries are themselves more

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<sup>43</sup> For example, some very global companies, such as Nokia and Ericsson, originate in SMOPECs. However, most of these are operating in manufacturing industries in which exports are a feasible operation mode at the early phases of internationalisation. As discussed in Chapters 5 and 6, more research on this issue, with regards to network industries generally, and telcos particularly, is needed.

dependent on their largest MNEs (Antoniou, 2001, Benito et al., 2002), and MNEs in network industries often are among these companies. Thus, it could be argued that for firms in network industries that originate from SMOPECs, the role of governments is a significant factor influencing their internationalisation strategies. Some findings towards this direction have been reported, for example, in airline industries (Goodovitch, 1997, Ramamurti and Sarathy, 1997, Antoniou, 2001) and in the banking industry (Boldt-Christmas et al., 2001, Benjamin and Merrett, 2007, Dick et al., 2007), where the competitiveness of these companies has been heavily influenced by government regulations and policies.

## **7.5 Internationalisation Strategies**

In the following sections specific issues influencing international product, operation, market and organisation strategies of SMOPEC MNEs will be discussed.

### **7.5.1 Product Strategies**

With regards to their international product strategies many successful SMOPEC firms tend to have targeted a few (global) niche sectors (Morkel and Osegowitsch, 1999, Benito et al., 2002, Hubbard et al., 2002, Dick and Merrett, 2007, Dick et al., 2007, Osegowitsch, 2007). That is, SMOPEC firms have rarely been successful in strategies based on economies of scale and mass production due to their limited resources (Dick and Merrett, 2007). Rather, they have overcome these challenges by implementing focused product strategies.

### **7.5.2 Operation Strategies**

With regards to their operation strategies, SMOPEC firms appear to look for alternative modes to traditional FDI in their international entries. Studies have shown that they seek to expand internationally at a lower risk, operating in businesses where export operations are feasible or, when committing to FDIs, focusing on industries where investments required are relatively small, and investing in sales supporting FDIs, rather than production ones (Morkel and Osegowitsch, 1999, Lewis and Zalan, 2005). This may become



an issue in capital-intensive sectors, such as most network industries. As Knight (1999) noted, in many service sectors FDI is the dominant entry mode, and at the same time the most expensive one. This may cause large MNEs with significant resources to dominate in these types of sectors, as discussed earlier. There is still a gap in research on what implications this may have for the internationalisation of SMOPEC firms with limited resources. As Knight (1999) underlined, it is not yet clear if there are alternative operation strategies available, and it may therefore be inevitable that large MNEs from large countries will eventually dominate in service sectors. Also, he asked for studies to investigate if there are any competitive advantages available to SMOPEC MNEs.

Some means to overcome these challenges have been reported in the literature. For example, MNEs from smaller countries can enter into strategic alliances more generally (Ramamurti and Sarathy, 1997, Merrett, 2002), or with each other (Cho, 1998, D'Aveni, 2002), to compete with the dominant MNEs in the industry, especially in capital-intensive sectors. This is in line with the motivations for firms to enter strategic alliances, discussed in Chapter 5. In addition, it seems that government regulations have been contributing to the use of cooperation-based operation modes between SMOPEC firms, although there are little studies on this issue. For example, the cooperation between Nordic banks was very fruitful for as long as their governments protected their domestic markets respectively (Boldt-Christmas et al., 2001). However, as soon as the barriers were lifted the level of cooperation diminished.

Notably, several studies have reported significant de-internationalisation phases in the internationalisation processes of SMOPEC MNEs. Studies on de-internationalisation that were discussed in section 2.3.3 were based on data on SMOPEC MNEs (Welch and Luostarinen, 1993, Benito and Welch, 1994, Welch and Benito, 1996). In addition, more recent studies on service industries, namely Australian (Dick et al., 2007) and Norwegian banks (Boldt-Christmas et al., 2001), have reported significant de-internationalisation phases

between the early learning phase in the 1980s and 1990s, and the more cautious re-internationalisation phases afterwards. Also, Hubbard (2002) reported on the cyclical nature of the internationalisation process in his study on Australian MNEs. These phases included experimental growth phases followed by consolidation phases. Moreover, Lewis and Zalan (2005) linked many of the failures in the internationalisation of Australian MNEs to high risk investments in production-based FDI. It could be argued that these types of de-internationalisation developments are more common to SMOPEC MNEs, with their urge to enter foreign markets rapidly combined with their limited resources. This challenge may have been increased further by pressures to grow from capital markets, an issue being reported as a factor behind the often too aggressive internationalisation process of many SMOPEC firms (Gabrielsson and Gabrielsson, 2004, Lewis and Zalan, 2005, Dick et al., 2007). In summary, entering international markets with committed operation modes can be a very challenging task for SMOPEC MNEs.

### **7.5.3 Market Strategies**

The internationalisation process theories, many of them developed in SMOPECs, as already mentioned, suggests an incremental process from close to more distant markets. It could be argued that with limited resources this would be the preferred process, especially for SMOPEC MNEs as they do not have resources to enter many countries at the same time, thus starting from countries with close psychic distance, as some more recent studies have found, for example, Australian MNEs started their internationalisation in markets with small psychic distance, such as the UK and the US, New Zealand and other former British colonies in Asia (Merrett, 2002, Dick et al., 2007); and Finnish companies targeted first close and similar countries, such as Scandinavian countries, the UK, and Germany (Larimo, 1995, Mannio et al., 2003).

However, there are also opposing findings, especially in more recent studies, with many SMOPEC firms seemingly shifting towards more distant countries (Larimo, 1995, Dick

et al., 2007). It could also be argued that this supports the previous discussions on globalisation developments more generally, and context-specificity, such as industry and firm specific factors. Especially in capital-intensive service sectors and oligopolistic industries, SMOPEC MNEs may be forced to look for alternative target markets<sup>44</sup>.

As discussed in Chapter 5, many business service firms are able to internationalise rapidly as they follow their customers internationally. However, for business service firms originating in SMOPECs this may be a disadvantage at a global scale, as there are relatively few MNEs to follow in the first place. These types of challenges have been reported by Bold-Christmas et al. (2001) in their study on Norwegian banks, and also emphasised as an advantage for large country MNEs in Roberts' (1998) study, as discussed in Chapter 5. This issue may bring additional challenges for the internationalisation of SMOPEC MNEs.

#### **7.5.4 Organisation Strategies**

As discussed in the previous section and in Chapter 3, global strategies generate benefits in the long-run because of economies of scale, but they are usually very costly to implement (Yip, 1989). Thus, for companies with limited resources, the overall risk may become too great and a more optimal strategy would be to remain a multidomestic firm and increase international involvement only gradually (Yip, 1989). It could be argued that as multidomestic strategies do not require entry to each major target market globally, they may better fit companies from smaller countries. Following this argument, it is not surprising that studies on SMOPEC MNEs have reported that they tend to apply multidomestic strategies over other options (Merrett, 2002).

On the other hand, there are also studies that have argued for transnational solutions, combined with a network approach, to be most optimal for SMOPEC firms (Lewis and Zalan,

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<sup>44</sup> For example, Rugman and Girod's (2003) findings on Ahold, a retailer from the Netherlands, reported a very unique pattern of growth. The company avoided direct competition with the global MNEs in their industry in their neighbouring countries, such as in Germany, France and the UK, and instead entered Spain, Scandinavia and North America. This type of market strategy was different from those suggested by traditional internationalisation theories. Similar findings were also reported on another retail company, Delhaize from Belgium.

2005). This approach may have advantages for SMOPEC MNEs with limited resource pools, as they are able to tap the resources of other markets to develop their overall competitive advantage. However, for MNEs with little international experience, more complex transnational strategies over multidomestic ones may result in failure (Merrett, 2002).

It is often assumed that in deregulated network industries global strategies will become the optimal ones and best fit the major dominant players (Bonardi, 2004). Furthermore, often the bargaining power when entering global alliances, common in these types of industries, is low for small companies (Economides, 1996). This kind of environment places additional pressures on companies from SMOPECs in regard to their international ambitions and alliance formation. As in most cases global strategies are infeasible for SMOPEC MNEs, especially in capital-intensive sectors, these companies need to look for alternative organisation strategies.

## **7.6 Country Specific Differences across SMOPECs**

Although SMOPEC countries share many characteristics that have an influence on their MNEs internationalisation patterns, as argued throughout this chapter, it must be noted, though, that they also have some of their own specific characteristics (Benito et al., 2002, Larimo, 2003). For example, Finnish and Australian firms started internationalisation relatively late, when compared to Swedish firms (Larimo, 1995, Dick and Merrett, 2007); and the Australian economy in general is based more on natural resources than many other SMOPECs (Hubbard et al., 2002, Merrett, 2002, Dick and Merrett, 2007, Dick et al., 2007). The similarities are significant enough to justify comparative studies on SMOPECs (Dick et al., 2007). However, it remains necessary for a researcher to identify and acknowledge any possible differences across the countries in a study. In this study these differences between the case companies and their home countries are discussed in section 11.5.

## **7.7 Clusters**

As discussed in section 3.3.5, research on clusters and the concept of a diamond of national competitive advantage has analysed the importance of home country specific factors, such as governments influence and competition. That is, it was argued that the importance of a home country and location have increased, rather than decreased in contributing to a firm's competitive advantage and MNEs location choices. These concepts emphasised the importance of intense competition and sophisticated customers in domestic markets as contributors to competitive advantage, which would then transfer to successful internationalisation of a firm. Although not only restricted to knowledge-intensive industries, clusters tend to be especially relevant in these areas.

These concepts would have a few implications for the internationalisation of SMOPEC firms. On the other hand, it could be argued that in an environment where there are sophisticated customers and suppliers in domestic markets, it is more probable that internationalisation is fostered through a follow-the-customer process, and the network approach would apply to internationalisation processes when internationalising together with cooperation partners. Benito et al (2002) asked if the quality of these types of competitiveness/location-bound advantages could override the liabilities arising from the small size of a domestic market. Generally, governments can encourage cluster development by enhancing competition and deregulating industries. On the other hand, if markets are opened too early, domestic firms may become too vulnerable to attacks from their larger global competitors.

Thus, interesting questions remain. To what extent does the competitiveness of a country affect its MNEs abilities to internationalise successfully in knowledge-intensive industries? Should governments promote competition, or restrict it in network industries and other capital-intensive sectors? Merrett (2002) argued that although competition will weaken

the competitive environment of domestic MNEs, over time this will force them to develop their resources so that they can become successful global players.

However, Porter's study on clusters has also been criticised in that it does not explain the competitiveness of many small countries (Lewis, 1999, Morkel and Osegowitsch, 1999). These studies argued that smaller countries do not have the scale necessary to foster intensive competition. Rather, they claimed that industries should be developed around the major flagship firms and/or firms should also try to benefit from clusters in other countries (Morkel and Osegowitsch, 1999, Morkel et al., 1999). This would have two implications for SMOPEC firms. First, governments in SMOPECs should manage the level of competition, rather than open markets rapidly; and second, transnational strategies which actively search for competences from different country organisations would be recommended, rather than more ethnocentric global and international, or separated multidomestic strategies.

## ***7.8 Other Issues Relevant to SMOPEC Companies' Internationalisation***

In addition to the topics discussed above, researchers have found some other issues that may be relevant to the internationalisation of SMOPEC MNEs. As discussed in Chapter 3 on globalisation drivers, the developments in information technologies and transportation have reduced costs to operate internationally. This has lowered the barriers to internationalisation for smaller companies, as the emergence of born global firms demonstrates. Thus, it could be argued that some barriers and limitations for SMOPEC firms to internationalise have diminished (Dick et al., 2007), especially in some knowledge-intensive sectors and services.

In some areas SMOPEC MNEs may even have a competitive advantage against MNEs from the largest countries in the world. As they are rarely in a dominant position, there may be situations in which they are not perceived as a threat (Hennart and Larimo, 1998, Lewis, 1999). This issue may be especially relevant in sectors where government

involvement is still strong and which are perceived as strategic, such as many network industries. However, there are few studies on internationalisation processes which have discussed this issue.

## **7.9 Summary**

It has been argued in this chapter that a home country can influence internationalisation strategies, and that for MNEs from SMOPECs there are some specific and similar challenges. Moreover, it was noted that these challenges can be especially significant in industries with high capital-intensity, such as network industries. Overall, the importance of more research on the internationalisation of SMOPEC firms has been discussed in this chapter. A number of factors influencing their internationalisation were identified and some alternative internationalisation patterns discussed.

In the next chapter the conceptual framework and propositions on the internationalisation strategies of telcos from SMOPECs will be developed, based on discussion in this and the previous chapters.

## **8 Development of Conceptual Framework and Research Propositions**

### **8.1 Introduction**

In the previous chapters it was demonstrated that internationalisation as a process can be very context-specific. It was argued that to understand better this context specificity, research on internationalisation needs to be complemented with studies on globalisation, and with strategic management studies of a company's external and internal factors. Differences between the internationalisation processes of manufacturing and service companies were discussed, which was followed by reviews of the internationalisation of the telecommunications industry and the internationalisation of companies from SMOPECs.

It was argued that there are several factors in the telecommunications industry that cause the internationalisation of telcos to deviate from the processes suggested by traditional theories, and from those of many other industries. Also, it was demonstrated that telcos from SMOPECs face their own specific challenges in internationalisation. It was established that theory-based research on this issue, including the latest developments in the sector, is still scarce.

In this chapter the conceptual framework to analyse internationalisation strategies of telcos from SMOPECs is developed based on the literature reviews and discussions in the previous chapters. First, the conceptual framework is presented and linked with the broad research questions introduced in Chapter 1. Second, factors that were identified during the literature review to affect the internationalisation strategies of telcos from SMOPECs will be summarised. Finally, the specific research propositions will be developed under each sub-strategy of the conceptual framework; that is, international product, operation, market, and organisation strategy.



## **8.2 Development of Conceptual Framework**

Based on the literature review a conceptual framework was developed, as suggested by Parkhe (1993), Miles and Huberman (1994), and Dubois and Gadde (2002). A conceptual framework can be a graphical description or narrative of the key ideas, constructs and factors to be researched (Miles and Huberman, 1994, Cavana et al., 2001).

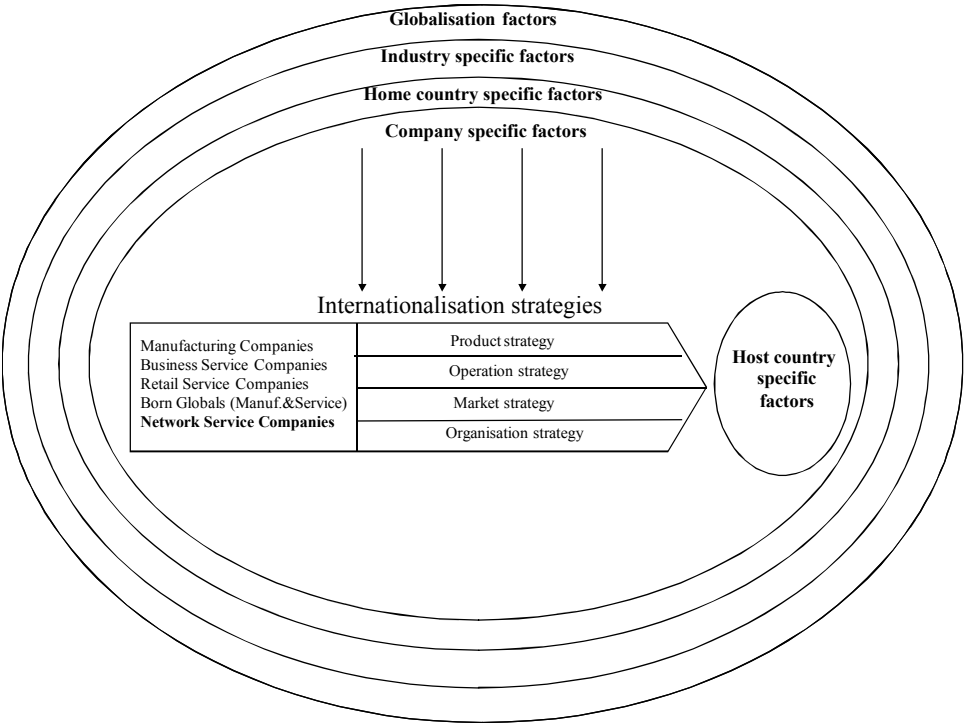
The objective of a conceptual framework is to bring structure and focus to the study, without compromising the inductive nature of qualitative research (Parkhe, 1993, Miles and Huberman, 1994, Yin, 1994). The framework increases the theoretical level (of the study) by including comparisons with similar and conflicting literature; that is, to apply analytic generalisation by using previous theories as a template (Eisenhardt, 1989, Yin, 1994). Also, a conceptual framework helps to be selective by identifying the most likely concepts and relationships (Miles and Huberman, 1994, Dubois and Gadde, 2002, Yin, 2003, Silverman, 2005), but being less defined than a theoretical framework with very specified variables (Cavana et al., 2001).

The conceptual framework developed to analyse internationalisation strategies of telcos from SMOPECs is based on the models developed by Luostarinen (1979, , 1994) and Welch and Luostarinen (1988), and Dunning's OLI-model (1988, , 1995, , 2000a). As Dunning (2000a) emphasised, and as discussed in the previous chapters, many of the internationalisation theories are more context specific than, perhaps, has been acknowledged earlier: country specific factors of host country and home country, the industry factors and the nature of the product, and company specific characteristics are all very relevant in relation to the internationalisation of a company. He argued that combining the knowledge of OLI-paradigm, that is, eclectic theory, with the information on factors mentioned above, it would be possible to develop testable theories. He also argued that it is important to add a dynamic component to the analysis. The objective of this research is to include these elements, and elements from other international business and strategic management theories and concepts

discussed in the previous chapters, into the conceptual framework, and to explore the dynamism of internationalisation and factors influencing it in a network industry, the telecommunications services sector.

Building on this prior research, a conceptual framework has been developed consisting of the internationalisation process, or an internationalisation strategy of a firm, which includes four separate but very interdependent sub-strategies; that is, product strategy, operation strategy, market strategy, and organisation strategy, and of five groups of factors influencing these strategies (see Figure 8.1). Based on the findings of the earlier research these factors are divided into five main groups: global factors, industry specific factors, home country specific factors, company specific factors, and host country specific factors. Based on Figure 8.1, there seems to be relationships between different factors, notably the factors described in the outer circles appear to have an influence on factors in the more inner circles.

**Figure 8-1 Conceptual Framework**



The research will analyse which factors have been most influential on the internationalisation of the case study companies, and how these factors have influenced each

of the sub-strategy. Further, possible relationships between each strategy and between each factor group will be analysed, as reflected in the broad research questions introduced in Chapter 1 and further developed during the literature review. These were as follows:

1. *Why and how have national telcos from SMOPECs internationalised*
  - a. *in relation to their product strategy?*
  - b. *in relation to their operation strategy?*
  - c. *in relation to their market strategy?*
  - d. *in relation to their organisation strategy?*
2. *Have these strategies varied from the product, operation, marketing, and organisation strategies suggested by traditional internationalisation theories, theories on the internationalisation of other service sectors, and theories on the internationalisation of large country telcos? If so, how?*
3. *What have been the factors that have influenced these strategies*
  - a. *Global factors?*
  - b. *Industry specific factors?*
  - c. *Home country specific factors?*
  - d. *Company specific factors*
  - e. *Host country specific factors*

### **8.3 Factors Influencing Internationalisation Strategies**

The deterministic nature of the traditional internationalisation theories was based on *ceteris paribus* assumptions. However, as research has demonstrated, a *ceteris paribus* situation rarely applies, thus providing justification for more context-specific studies that pay attention to specific environmental and strategic factors influencing the internationalisation strategies of a firm (O'Farrell and Wood, 1994). This has led to a demand for studies on internationalisation that include companies' external and internal factors in the framework (Benito and Welch, 1994, Zou and Cavusgil, 1996, Roberts, 1998, Benito et al., 2002, Javalgi and White, 2002), as has been discussed throughout the literature review.

In this section the factors influencing the internationalisation strategies of SMOPEC telcos are summarised. Global and industry specific factors are based on globalisation drivers listed in section 3.2 (including Yip's four group of globalisation drivers), and on discussion of

the internationalisation of service industries more generally, and telcos particularly. That is, some of the globalisation drivers listed in Chapter 3 are more general global factors influencing the internationalisation process of all companies, such as emergence of MNEs (as customers), globalised financial markets, homogeneous consumer tastes, and developments in transportation, whereas some others seem to be more industry specific, such as network externalities, deregulation/regulation, oligopolistic industry structures, and technological developments and standards.

Home country specific factors are largely based on the discussion in Chapter 7 on SMOPEC internationalisation, especially from the perspective of telcos. As discussed, several studies have recognised the importance of a home country with regards to the internationalisation strategies of a company. For example, the limited size of their domestic markets may create additional challenges for SMOPEC companies with regards to economies of scale advantages and financial resources. It was also mentioned that as most MNEs originate in the largest developed countries, this gives a competitive advantage to telcos from these countries. On the other hand some studies have reported on SMOPECs MNEs being perceived as less threatening, thus possibly providing a competitive advantage, especially in some strategically important and politically sensitive sectors, such as the telco sector. However, this is still not a well researched area and these few findings were based (mostly) on manufacturing industries. Also, the importance of clusters/home country embeddedness was discussed in Chapters 4 and 7. In the case of SMOPECs, especially in network industries, this issue may be further emphasised and closely linked with cooperation between home country MNEs and the government.

However, there are also studies that dismiss the importance of a home country, and instead emphasise company specific factors (for example', Hawawni et al., 2004). Company specific factors in the conceptual framework have their basis in the RBV concept, introduced in Chapter 4, and discussed further in the chapters on service and telco industries. That is,

these factors consist of physical, human, organisational and financial resources that influence the internationalisation of telcos. Also characteristics such as the size and age of companies have been suggested as possible influences on their internationalisation strategies. On the other hand, the emergence of born global companies, discussed in Chapter 4, has further emphasised the importance of a firm's resources in their internationalisation, rather than the abovementioned factors of size and age. For instance, many recent studies have reported the significant role of international experience and vision of the top managers for a company's internationalisation, as already mentioned in the previous chapters. Research findings on this issue in the telco sector are still mixed at some level, as discussed in Chapter 6. That is, some studies found evidence of herd-behaviour, whereas some others argued for more strategic variations. Some earlier findings on the internationalisation of telcos also demonstrated that the relative importance of different resources has changed over time. In addition, it could also be argued that at some level limited resources of SMOPEC telcos in some specific areas, such as brand and financial resources, may limit their strategic options.

Host country specific factors have been widely discussed in most internationalisation studies and are naturally closely related to market strategies. In this study the home country specific factors are discussed when analysing factors with regards to an individual target market, whereas in the analysis of market strategies the emphasis will be on the relationship between the home country and a host country (for example, psychic distance), and the overall pattern. Factors linked with the host country are the size of the country, economic development (for example, GDP, GDP per capita, growth potential), technological development, host country specific regulations and standards, host government policies (for example, with regards to ownership), political stability, competition, culture, and language. It has been argued in the literature review that some of these factors seem to be relatively more significant for service sector companies, such as culture and language, and government-based factors such as regulations/government ownership/political stability. All of the five groups of

factors are summarised in Appendix 2, and further discussed in the development of each research proposition.

#### **8.4 Development of Specific Research Propositions**

The conceptual framework presented in the previous section will be used to develop specific research questions, as suggested by Parkhe (1993), Miles and Huberman (1994), and Ghauri et al. (1995). That is, research propositions operationalise the conceptual framework (Miles and Huberman, 1994). Sometimes the terms ‘research questions’ and ‘research propositions’ are used interchangeably in qualitative research. In this study separate definitions for the terms have been adapted. Research propositions are less precise than the hypotheses used in a quantitative study, but also more specific than broad research questions used to guide the research in the more inductive qualitative studies (Miles and Huberman, 1994, Ghauri et al., 1995, Carson et al., 2001, Cavana et al., 2001, Parker, 2003, Silverman, 2005). In some of the more inductive qualitative studies broad research questions may even replace the conceptual framework as a guide for a study (Silverman, 2005). However, in case study methodologies more specific research propositions based on theory can give direction to data collection and analysis in the search for relevant findings (Miles and Huberman, 1994, Yin, 2003). Research propositions can be used in a systematic way to explain the emergent theory, but also allowing space to identify variations in the patterns and previously unidentified factors influencing the process (Strauss and Corbin, 1998, Yin, 2003, Ghauri, 2004).

In this study, the broad research questions are used to help define the research problem. However, when proceeding further in the case study protocol, the conceptual framework and more specific research propositions under each broad research question form the structure of the study. That is, the specific research propositions are clustered under the broader research questions and sub-sections of the conceptual framework, following the recommendations of Miles and Huberman (1994), and Carson et al (2001). Also, the use of

specific research propositions allows better comparability across the multiple-cases and with different theories, especially when the data from the case studies is then related back to the propositions (Ghauri et al., 1995).

When analysing the internationalisation strategies of a firm more generally, it was demonstrated that the traditional theories suggest the process to be gradual. However, further research of these traditional theories has found evidence of more rapid processes, for example, as suggested by the network approach more generally, or in the case of internationalisation of born globals and service companies, more specifically. As discussed in Chapter 6, several studies of the telecommunications services sector had reported very rapid and irregular internationalisation developments in which the logic of internationalisation strategies may vary significantly from that for manufacturing companies (Sarkar et al., 1999), or for a service which is more closely related to goods, such as a hard-service. Moreover, it was also discussed that some studies had reported different phases in the internationalisation of the telco sector, including some de-internationalisation developments. In the following sub-sections these variations in the internationalisation processes of telcos from SMOPECs are discussed and the specific research propositions for each sub-strategy developed.

#### **8.4.1 Product Strategy**

As discussed in section 5.5.1, the few traditional internationalisation process theories that have analysed the evolution of international product strategies suggested that companies start their internationalisation in stages commencing from export of goods and later expanded to product portfolios which complemented goods with services and systems. It was discussed that services are much more heterogeneous with regards to this issue, as some services, such as hard-services, are similar to goods and some service companies may even start their internationalisation by exporting goods, and some other studies also reported on 'transhuman exports'. However, in most other service sectors, based on service characteristics such as inseparability and intangibility, companies follow very different product strategies from the





Proposition 1 C: *Due to their limited resources SMOPEC telcos enter international markets with (global) niche product strategies (vs. integrated networks).*

#### **8.4.2 Operation Strategy**

As already mentioned, based on the traditional internationalisation process theories manufacturing companies internationalise incrementally with regards to their operation strategies. That is, they first start with export modes, and then gradually enter more committed modes such as foreign country-based subsidiaries. However, due to service characteristics such as intangibility and inseparability, service companies start their internationalisation with more committed operation modes. This is especially so with soft-services, location-bound services and asset-based services such as network industries/telcos (Sarkar et al., 1999). That is, operation strategies are closely linked to their product strategies as already mentioned in Chapter 5. The need to enter international markets with committed operation modes is further enhanced by first mover advantages caused by network externalities, deregulation, technological developments, oligopolistic industry structure, and industry growth factors (Sarkar et al., 1999, Ramamurti, 2000, Fjeldstad et al., 2004), discussed in Chapter 6. Also, it could be argued that telcos were able to benefit from some earlier inward internationalisation activities and from the network of their international suppliers, as also discussed earlier. Thus, Proposition 2 A that *telcos start their internationalisation from the beginning with direct investment modes and do this very rapidly.*

However, as mentioned earlier, telcos from SMOPECs lack resources when compared to large country telcos. This issue is emphasised in capital-intensive and asset-based network industries. This increases risk and creates pressure to internationalise carefully. Thus, telcos from SMOPECs use minority JVs as an operation mode to share the risks, rather than fully owned FDIs suggested by economic theories based on transaction costs and internalisation,

and theories focused on first mover advantages only<sup>46</sup>. Thus, Proposition 2 B, that *instead of investing in fully owned subsidiaries, SMOPEC telcos enter international markets (predominantly) with minority JVs.*

Based on the literature review, moreover, it could be argued that SMOPEC telcos also enter into strategic alliances to balance risks and to achieve better first mover advantages. Thus, Proposition 2 C that *SMOPEC telcos internationalise through strategic alliances (with other telcos) and the role of strategic alliances is especially important for their internationalisation (relative to telcos from large countries).*

However, there is conflicting evidence of the sustainability of these types of alliances in the long term. Some studies on the internationalisation processes have generally found that the further the internationalisation process proceeds, the more the level of co-operation increases (Johanson and Mattsson, 1988, Korhonen et al., 1996). On the other hand, some studies suggested that the further the competition intensifies in the telco sector, the more the sustainability of alliances will be questioned. Thus, two opposing propositions result: Proposition 2 D: *The role of strategic alliances for SMOPEC telcos will increase towards the later phases of their internationalisation processes;* and Proposition 2 E: *The role of strategic alliances for SMOPEC telcos will decrease towards the later phases of their internationalisation processes.*

Finally, as discussed in Chapter 6, internationalisation of telcos has progressed in stages, including de-internationalisation activities. It was argued that this was related to the relatively high risk levels in the sector during the active growth phase. Thus, it could be argued that after that rapid growth phase telcos from SMOPECs, with their limited resources, were especially forced to de-internationalise from international markets. This leads to

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<sup>46</sup> It needs to be noted that factors such as host government regulations influence internationalisation strategies of all telcos, not just SMOPEC telcos. Thus the findings that larger telcos also engaged in minority JVs. However, it could be argued that, relatively, this is an even greater issue for SMOPEC telcos and, as already discussed in Chapter 6, they would rarely be able to engage in large committed entry modes.

Proposition 2 F: *SMOPEC telcos have faced significant de-internationalisation phases during their internationalisation processes.*

### **8.4.3 Market Strategy**

As previously mentioned, traditional theories suggest that due to uncertainty with respect to foreign markets, companies reduce risk by starting their internationalisation by first entering into neighbouring countries with small psychic distance, and then, step-by-step as their organisations' experiences accumulate, these firms gradually enter more distant foreign countries. However, some later studies, especially research on born globals, have challenged these theories, and emphasised the importance of lead markets, and how companies need to enter these markets rapidly, independent of their location (Jolly et al., 1991, Rennie, 1993, McDougall et al., 1994, Knight and Cavusgil, 1996, Autio et al., 2000). That is, psychic distance has played a minor role in the internationalisation of 'born globals'.

Findings on market strategies of service sector companies have been very inconsistent. In some services, especially in service sectors in which human interaction and culture are important, psychic distance has played an even more significant role than in manufacturing industries, and this issue is further emphasised in services which target wealthier customers. However, in several other services the psychic distance paradox has been evident, as discussed in Chapter 5. In the telecommunications services sector, an industry with network externalities, deregulation, rapid technological developments, oligopolistic industry structures and a very rapid growth pace overall, there are pressures to enter rapidly many markets around the world. That is, the factors contributing to first mover advantages seem to override the factors supporting psychic distance. Moreover, for telcos from SMOPECs this issue is emphasised further. Due to their limited resources they face significant challenges to enter large and/or developed lead markets, and many markets simultaneously in a capital-intensive asset-based industry. Furthermore, the government's significant role in the industry will influence the internationalisation patterns of telcos. For

example, as discussed in Chapters 5 and 6, reciprocal entry requirements may create challenges when entering other developed countries. All this provides relatively better opportunities for SMOPEC telcos in developing countries. This fact may further contribute to a psychic distance paradox (Evans et al., 2000a, Tihanyi et al., 2005). This leads to Proposition 3 A: *The role of psychic distance is less significant in the internationalisation of SMOPEC telcos than traditional theories would suggest, and the psychic distance paradox is supported.*

However, the latest theories on regionalisation suggest that this development first proceeds in the domestic continent, before globalising to other continents. Studies have found regionalisation to be especially relevant in service sectors<sup>47</sup>. Thus, Proposition 3 B: *Due to regionalisation developments and relatively large risks involved in entering global markets, SMOPEC telcos follow regional market strategies.*

Finally, based on the findings in Chapter 5, it could be argued that with regards to their B2B operations telcos follow processes similar to other business services; that is, they enter other developed countries but do it more rapidly than the traditional models would suggest. Thus, Proposition 3 C: *With their B2B operations SMOPEC telcos enter the largest developed markets rapidly.*

#### **8.4.4 Organisation Strategy**

Traditionally, as discussed in section 4.6.1, companies change and develop their organisational structures as their level of global involvement increases. That is, companies develop from domestic to international, then to multinational, followed by global, and finally to transnational companies (Bartlett and Ghoshal, 1992, Lovelock and Yip, 1996)<sup>48</sup>.

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<sup>47</sup> For example, the companies that were defined global in Rugman's studies, discussed in Chapter 3 and 5, included only one service company

<sup>48</sup> Global market strategies are not necessarily the same as global organisation strategies. That is, there can be regional organisations with regards to market strategy, but still implementing "global" standardised organisation strategies. It could be argued that there is a need for a more specific definition in a situation in which the market strategy is regional, but organisation strategy 'global' (that is, regional 'global' strategy vs regional 'multidomestic' strategy).

However, there are arguments against how linear and deterministic these developments have been in different industries, and this is the case especially in service sectors, as discussed in Chapter 5. For example, international organisation strategies based on export operations are not feasible in asset-based and location-bound services, whereas global strategies based on standardisation have been challenging for many retailing and advertising companies, which are affected more by cultural factors. This results in an argument that service companies follow multidomestic strategies. This has been further emphasised in network industries, as in many cases governmental factors may limit how well these companies are able to standardise their operations across countries.

On the other hand, in the telco sector several factors have contributed to strong first mover advantages, thus requirements to globalise rapidly, as mentioned earlier in this chapter and in Chapter 6. This led to scenarios in which a few large global telcos would dominate the sector. For telcos from SMOPECs, however, global strategies seemed to be non-feasible. It could be argued that they lacked several critical resources to apply a global strategy: they did not have economies of scale advantages and/or strong brands, and they had limited financial resources. This may result in a situation where, for example, a global strategy, although a strategically optimal solution for a network company, may turn out to be too risky a solution relative to the company's resources. This argument is consistent with Yip's (1989) claim on the applicability of a global strategy for a company with limited resources, mentioned in sub-section 3.3.1. Thus, proposition 4 A suggests that: *Telcos from SMOPECs follow multidomestic strategies.*

Several researchers argued that most service companies never evolve to global organisation strategies, a statement that is perhaps most relevant for SMOPEC telcos. On the other hand, some elements of transnational strategies may fit companies from SMOPECs. For example, it could be argued that the smallness of the domestic market forces these companies to look not only for markets, but also for resources from other markets. This argument leads

to Proposition 4 B: *Over time the organisation strategies of telcos from SMOPECs evolve from multidomestic to transnational strategies.*

Furthermore, as already mentioned, different internationalisation strategies are often interrelated. As proposed earlier, SMOPEC telcos implement niche-based product strategies internationally. If so, this leads to Proposition 4 C: *Telcos from SMOPECs implement global organisation strategies in their niche-based businesses.*

## **8.5 Summary**

In this chapter, based on the body of knowledge covered in Chapters 2 to 7, the conceptual framework to analyse the internationalisation strategies of SMOPEC telcos was developed. The framework consists of four-sub strategies: product, operation, market, and organisation strategies, and five group of factors: global, industry specific, home country specific, company specific and host country specific factors. This led to the development of a number of specific research propositions. In the following chapter the methodology to study these research propositions will be discussed.

## **9 Methodology**

### **9.1 Introduction**

In the previous chapters several research issues on the internationalisation processes of a firm, especially in service industries, were identified, and a conceptual framework and specific research propositions developed. This chapter will describe the methodology; that is, a multi-case study, which will be used in the investigation.

In Chapter 1 the methodology was briefly introduced and in this chapter the discussion will be developed in more depth. This chapter is organised as follows: first, research methodologies in general are discussed; second, different types of qualitative methodologies are reviewed with a focus on a multi-case study methodology; third, the research design and case study protocols are introduced; and finally, the validity and reliability of the research project is discussed.

### **9.2 Justification for the Methodology**

#### **9.2.1 Discussion on Research Methodologies**

The background for discussion on a research methodology lies in ontology, the study of existence/how the world really is (Morgan and Smircich, 1980, Gerring, 2004); and in epistemology, the study of knowledge (Dancy, 1986). This has led to two opposite methodological approaches on how physical and social realities are experienced: positivist/realistic/objectivist and interpretivist/relativistic/subjectivist/constructivist approaches (Parkhe, 1993, Cavana et al., 2001, Guba and Lincoln, 2005).

The positivist approach is often linked with ‘scientific’ and ‘logical’ quantitative research methodologies in Western research tradition (Cavana et al., 2001). These quantitative methodologies are based on deductive reasoning, which aims to measure a phenomenon, and use statistics to analyse the data (Cavana et al., 2001).

In contrast, the interpretivist approach emphasises the role of a human's perception of the world in shaping 'reality' (Cavana et al., 2001). The argument is that researchers' own values, motives and objectives will be integrated in the research process, thus making it very challenging even for the purest positivist researchers to achieve a totally human-free and objective reality (Van Maanen, 1983, Cavana et al., 2001, Pauwels and Matthyssens, 2004, Guba and Lincoln, 2005). For example, researchers' decisions on research methodologies will have an influence on the meaning of the findings (McGaughey, 2004). Some researchers have argued for an epistemological perspective that is more context-specific and which would pay more attention to the researcher as a subject (Pauwels and Matthyssens, 2004).

Generally, interpretivist studies are qualitative in their nature; that is, the aim of the research is to understand the meaning of the phenomena, rather than the frequency (Van Maanen, 1983, Cavana et al., 2001, McGaughey, 2004), and to provide an insight rather than to generalise (Miles and Huberman, 1994, Ghauri et al., 1995, Stake, 2000, Ghauri, 2004). The world is complex and some of this complexity, richness, and hidden realities may be lost during the operationalisation of variables in quantitative research (Parkhe, 1993, Miles and Huberman, 1994, Yin, 1994, Cavana et al., 2001, Yin, 2003, Silverman, 2005). In many situations it is necessary to have a holistic approach in order to analyse the whole phenomena, instead of limiting the data collection to just a few variables on simplistic relationships (Liesch et al., 2002, McGaughey, 2004). A more holistic qualitative approach allows the investigation of research topics in which pure survey-based quantitative methodologies are not applicable (Miles and Huberman, 1994, Yin, 2003).

These different methodological approaches, positivist/quantitative and interpretivist/qualitative, complement each other in the development of a comprehensive theory (Parkhe, 1993, Miles and Huberman, 1994, Strauss and Corbin, 1998). Often it is argued that qualitative research methods are required especially in the early stages of research, when a phenomenon under research includes idiosyncrasies not studied earlier



(Glaser and Strauss, 1967, Miles and Huberman, 1984, Eisenhardt, 1989, Sekaran, 1992, Yin, 1994, Cavana et al., 2001), and/or they can provide fresh perspectives to already researched topics (Miles and Huberman, 1984, Eisenhardt, 1989, Yin, 1994). Qualitative research methodologies are also associated with the need to identify causal links in complex situations (Miles and Huberman, 1984, Bonoma, 1985, Yin, 1994, Cavana et al., 2001, Marschan-Piekkari and Welch, 2004). Thus, a common argument is that qualitative research methods are used in theory generation/building, whereas quantitative methods suit better to theory testing (Glaser and Strauss, 1967, Eisenhardt, 1989, Cavana et al., 2001, Dubois and Gadde, 2002, Ghauri, 2004). A grand-theory may require multiple findings and interaction of both theory-generating/building and theory-testing research (Eisenhardt, 1989). As Parkhe (1993, pg. 262) argued in his quest for more qualitative research in international business and management, the use of different methods is needed:

*If the most basic goal of scientific research is deeper understanding through theory development, then social scientists must be more flexible with respect to their choice of technologies (methods) in the service of that goal.*

Qualitative research methodologies are recommended especially when the aim is to understand complex social phenomenon, a specific situation/context, longitudinal processes, and/or the role of a human factor – all issues that are very relevant in management and organisational studies<sup>49</sup> (Miles and Huberman, 1984, Bonoma, 1985, Parkhe, 1993, Yin, 1994, Cavana et al., 2001, Chang and Rosenzweig, 2001, Ghauri, 2004, McGaughey, 2004, Tihanyi et al., 2005). First, when a phenomenon under study is broad and highly complex a holistic in-depth research approach that pays attention to different dimensions is preferable (Miles and Huberman, 1984, Bonoma, 1985, Yin, 1994, Cavana et al., 2001, Ghauri, 2004, Pauwels and Matthyssens, 2004). For example, to cover the full meaning of globalisation developments (Clark and Knowles, 2003) and/or the underlying embedded and indirect relationships of factors influencing international entry modes (for example, asset-

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<sup>49</sup> Parkhe (1993) argued that traditionally the perspective in economic vs. management disciplines to quantitative and qualitative research methodologies are very different; that is, economic studies are emphasising more quantitative approaches.

specificity/capital-intensity) (Erramilli and Rao, 1993), in-depth qualitative research methodologies are recommended.

Second, a specific situation/context in which a phenomenon occurs justifies a qualitative approach focusing on that setting (Miles and Huberman, 1984, Bonoma, 1985, Yin, 2003). The ability of survey methods to study context is very limited (Yin, 2003). Examples of specific context in international business are language (Liesch et al., 2002), psychic distance (Tihanyi et al., 2005), and different national context more generally (Ghauri, 2004, Marschan-Piekkari and Welch, 2004). Also, it could be argued that industry and home country-specific factors contribute to a need for more context-specific approaches, as already discussed in the previous chapters. Moreover, as also discussed earlier, more strategic and company-specific approaches may be required in international business research. This complexity in international business and heterogeneity between firms requires qualitative research methodologies (Liesch et al., 2002).

Third, when investigating a dynamic process and its underlying factors, longitudinal qualitative research methods are recommended by several researchers (Andersen, 1993, Benito and Welch, 1994, Miles and Huberman, 1994, Ghauri, 2004, Siggelkow, 2007). This issue seems to be very relevant in international business research when analysing entries to foreign markets and international operation modes, and their evolution over time (Benito and Welch, 1994, O'Farrell and Wood, 1994, Welch and Welch, 1996, Pauwels and Matthyssens, 1999, Westhead et al., 2001, Fahy, 2002, Liesch et al., 2002, Marschan-Piekkari and Welch, 2004). That is, a longitudinal approach, instead of a snapshot, is recommended (Miles and Huberman, 1994, Marschan-Piekkari and Welch, 2004).

Fourth, an important factor that often contributes to the complexity of a phenomenon is human behaviour (Cavana et al., 2001). Thus, the ontological assumption of the world as a rational and concrete structure without the influence of a human factor and social context is not feasible (Morgan and Smircich, 1980). A more interpretivist approach to research can

help to integrate a human factor into the analysis (Miles and Huberman, 1994, Cavana et al., 2001). In international business and strategy research this is very relevant, as the perceptions, decisions and actions of key strategic decision makers, and also the role of human experience and learning, should be included in the analysis (Liesch et al., 2002, Pauwels and Matthyssens, 2004).

In spite of these requirements, too little qualitative studies have been conducted in international business (Benito and Welch, 1994, Marschan-Piekkari and Welch, 2004), although it could be argued that more recently there are more developments in this direction. Some researchers even argue that a bias towards positivist quantitative research has limited the development of the whole international business discipline, for example, by not being able to contribute to the broader theoretical discussion on globalisation (Vaara and Tienari, 2004). Thus, more qualitative holistic, context-specific, and longitudinal theory-generating and/or theory-developing studies are needed. This thesis is essentially such a study.

Even though internationalisation processes have been studied widely, and recently also in the context of different service industries, the major internationalisation phase in the telecommunications industry did not occur until the late 1990s and early 21<sup>st</sup> century. There also seem to be several idiosyncrasies in how telcos internationalise, as already highlighted in Chapter 6. Other potentially relevant issues identified in the literature review include inconsistencies in findings of how firms internationalise more generally, recent globalisation developments, emergence of alliances and networks, inadequate analysis of the process and development of different hybrid operation modes (for example, minority/majority JVs), and service internationalisation. Qualitative research methods offer a tool to identify possible deviations in the internationalisation processes of telcos and factors influencing them, and can provide new information for the internationalisation research in general and internationalisation processes in service network industries in particular.

## 9.2.2 Different Types of Qualitative Research Methodologies

There are different types of qualitative research methodologies. The traditional assumption is that qualitative research is inductive in its nature in order to identify new findings for theory generation (Glaser and Strauss, 1967), as already discussed earlier. However, few qualitative studies start with a very pure Lockean IS-approach with no consideration of existing theories (Parkhe, 1993, Silverman, 2005). There are also deductive/positivist approaches in qualitative research, as well as approaches that combine both inductive/theory-generating and deductive/confirmatory approaches (Parkhe, 1993). Examples of the former are positivist case studies (Miles and Huberman, 1994, Yin, 2003), and of the latter Dubois and Gadde's (2002) 'systematic combining/abductive approach' and Parkhe's (1993) 'middle position'. This particular study is also taking a middle-position between the extremes, but leaning more towards a deductive/positivist qualitative approach, as will be discussed and justified in the following sections.

One of the well-known representatives of an inductive approach in qualitative research is Glaser and Strauss' (1967) grounded theory methodology, developed further by Strauss and Corbin (1998). In an inductive approach the research process starts with observations of a phenomenon and moves through the analysis of patterns and themes towards theoretical generalisations and theory generation (Glaser and Strauss, 1967, Cavana et al., 2001). However, as Parkhe (1993) argued, in most cases pure inductive approach is not feasible. Some of the criticism towards qualitative studies in general is that they lack rigour, based on the limitations of their very open and unstructured research processes.

To address this issue, and also to have a more manageable research process, most qualitative studies include some priori specifications and some of them can even be defined as positivist qualitative studies (Miles and Huberman, 1994, Yin, 2003). Although a very structured research approach may limit the findings, there are also advantages in some planning and conceptual preparation, as this helps to be selective and can improve the validity

and generalisability of the study (Miles and Huberman, 1984, Eisenhardt, 1989, Miles and Huberman, 1994, Yin, 1994, 2003, Paré, 2004). For example, Yin (2003) differentiated the case study-based theory development from more inductive methods of theory generation, such as ethnography (Van Maanen, 1983) and grounded theory. Several researchers have even argued that qualitative studies are suitable also to theory testing, especially if there is a new perspective for an existing theory to be tested (Sekaran, 1992, Miles and Huberman, 1994, Yin, 1994).

Many qualitative researchers argue for the middle-ground between inductive/theory-generating and deductive/theory-testing approaches, in which both of them are integrated in an iterative research process with some priori theoretisation (Miles and Huberman, 1994, Keating, 1995). Dubois and Gadde (2002) used a term abductive to describe this type of approach. These types of studies could be defined as theory-development/refinement studies rather than theory-generating or theory-testing ones; that is, they extend and refine existing theories (Miles and Huberman, 1994, Keating, 1995, Dubois and Gadde, 2002).

In theory-development studies previous theories are used as a template using ‘analytic generalisation’ (Miles and Huberman, 1994, Yin, 1994). The difference, when compared to quantitative studies, is that the framework can be refined if deviations or new factors are identified, integrating also an inductive perspective to the process (Parkhe, 1993, Miles and Huberman, 1994, Ghauri et al., 1995, Keating, 1995, Strauss and Corbin, 1998, Dubois and Gadde, 2002, Silverman, 2005). The process is more iterative (Silverman, 2005). This approach is recommended when there is priori conceptual knowledge of the situation, but not enough to form a comprehensive theory (Miles and Huberman, 1994). That is, a researcher is aware of the areas that need further clarification and can recognise the setting in which to investigate them (Miles and Huberman, 1994).

With regards to research methods qualitative studies can include participant observations and experiments, discourse analysis, archival resources such as documents and

transcripts, and interviews (Cavana et al., 2001, Marschan-Piekkari and Welch, 2004). Data is often in the form of words, rather than numbers (Miles and Huberman, 1994, Cavana et al., 2001). A case study methodology, a qualitative methodology that may combine many of these methods, will be discussed more in the next section.

### **9.2.3 Case Study Methodologies**

One of the most common qualitative research methodologies in management studies is a case study. In a case study *the researcher systematically gathers in-depth information on a single entity – an individual, a group, an organisation or a community - using variety of data gathering methods* (Cavana et al., 2001, pp. 112), or as Yin (2003, p. 13) defined: “*an empirical inquiry that investigates a contemporary phenomenon within its real-life context*”. That is, a case study is much more than just a tool for teaching or for ethnographic and participant observation (Yin, 2003).

Case research is useful for most of the situations discussed in the previous section: it is holistic; it allows an in-depth analysis of a broad and complex phenomena with many variables; used to study new topic areas; to study context-specificity; to identify processes and causalities; to generate new theories and/or frameworks for further testing, but also to test and/or refine/extend existing theories; and following from the above features, is well suited to research on strategy and international business (Eisenhardt, 1989, Parkhe, 1993, Yin, 1994, Keating, 1995, Driscoll and Paliwoda, 1997, Liesch et al., 2002, Yin, 2003, Marschan-Piekkari and Welch, 2004, Paré, 2004). For example, Li and Whalley (2002) noted the need for more case study-based research to increase our understanding of the emerging patterns of telcos in the recent developments of the industry.

Researchers have defined several different types of case studies: interpretive, exploratory, inspirational, explanatory, illustrative, descriptive, illustrative, and motivational, and both single-case and multi-case studies (Miles and Huberman, 1984, Parkhe, 1993, Sutton and Staw, 1995, Yin, 2003, Ghauri, 2004, Paré, 2004, Siggelkow, 2007). An

exploratory/interpretive case study can help to gain familiarity with a phenomena on which there is little previous information (Miles and Huberman, 1994, Cavana et al., 2001). This type of case study will start with data collection, such as extensive interviews, before any rigorous research model is developed, or it may serve as a pilot study for hypotheses development in a larger quantitative research project (Cavana et al., 2001, Ghauri, 2004). One of the proponents of these types of inductive case studies has been Eisenhardt (1989).

The theory-testing case studies, on the other hand, are more rigorous and closer to natural sciences and quantitative methodologies by testing the applicability of hypotheses/propositions (Miles and Huberman, 1994, Yin, 1994, 2003, Paré, 2004).

The explanatory, or theory illustration cases used in theory development/refinement studies, are located in between exploratory and theory-testing cases in qualitative research continuum (Keating, 1995, Yin, 2003). They allow a researcher to find new insights and observations, but are still guided by conceptual frameworks and external references (Siggelkow, 2007). As Siggelkow (2007, p. 21) stated on these types of studies: “*An open mind is good, but an empty mind is not*”. Based on Keating’s (1995) classification, theory-illustration cases are used to support a specific theory by illustrating a perspective of the theory that has not been emphasised before, whereas a closely related theory-specification case will help to develop and refine an underspecified theory. Also Sutton and Staw (1995) and Miles and Huberman (1994) emphasised the importance of illustrative data in case studies.

The main methodological argument against case studies is that they do not allow scientific generalisation. However, this argument is missing the point as one of the strengths of an in-depth case study is that it can be used to learn from a particular case in a specific environmental setting (Dubois and Gadde, 2002). The key issue, however, is to move beyond being just descriptive; that is, there is a need to link the empirical data to literature. Empirical case data is necessary to describe the events and patterns but until the researcher explains

why these events and patterns happen, that is, causalities and relationships between them, and integrates this with previous theories and findings, no theory has been developed (Sutton and Staw, 1995). Researchers should relate findings from the empirical data back to the research framework, evaluate its applicability and compare the findings with other theories, and discuss how the findings can extend or complement theory (Keating, 1995). This close integration with existing theories, analytic generalisation, will improve the explanatory power and bring rigor to the research process (Keating, 1995, Dubois and Gadde, 2002).

#### **9.2.4 Multi-case Study Methodology**

As briefly mentioned in the previous section, there can be both single and multi-case studies. The main reason for a multi-case study methodology is to improve the generalisability and rigour (Miles and Huberman, 1994, Yin, 2003, Paré, 2004, Eisenhardt and Graebner, 2007, Siggelkow, 2007). A multi-case study can offer a better ground for theory-building and theory-development (Yin, 2003, Eisenhardt and Graebner, 2007). As Parkhe (1993) argued, an inductive approach and theory generation can be a strength of case studies, but some replication is also needed.

A multi-case study is an advisable strategy especially when research questions are “how” and “why”-type of questions, and the study is an explanatory study (Yin, 2003). In this study the research questions are focusing on defining how national telecommunication companies have internationalised, and have these processes varied from the traditional international processes of manufacturing companies and from international processes of other service industries, and the factors contributing to this development. This justifies the use of an explanatory/illustrative multi-case study methodology to investigate the research problem. This will also follow the recommendations of Welch and Welch (1996), who argued that in-depth multiple-case studies are an optimal methodology to study internationalisation processes and strategies.



However, it must be noted that any generalisations are analytic and are not based on statistical grounds (Yin, 2003, Pauwels and Matthyssens, 2004, Siggelkow, 2007). Not even multiple cases are sufficient to justify a theory; that is, *the theory should stand on its own feet* (Siggelkow, 2007). Thus, the sampling is very different from the one used in survey-based research. Multiple-cases are not similar to multiple experiments and do not follow sampling logic, but replication logic (Parkhe, 1993, Yin, 1994, 2003). This means that the findings cannot be generalised across the population statistically and frequencies measured, but they need to be generalised to theoretical propositions (Yin, 2003, Pauwels and Matthyssens, 2004). The objective in these types of studies is to expand theory (Yin, 1994). The roles of the conceptual framework and propositions are to predict the situation in which certain results most probably occur or do not occur (Yin, 1994). Multiple cases then provide stronger and more robust basis to support (or not support) the propositions, than a pure single case study; that is, they demonstrate that the findings are not based on an idiosyncratic case (Eisenhardt and Graebner, 2007). Depending on how the findings from the cross-case analysis then support the propositions, the theory may need to be developed further (Yin, 1994).

### **9.3 Research Design and Case Study Protocol**

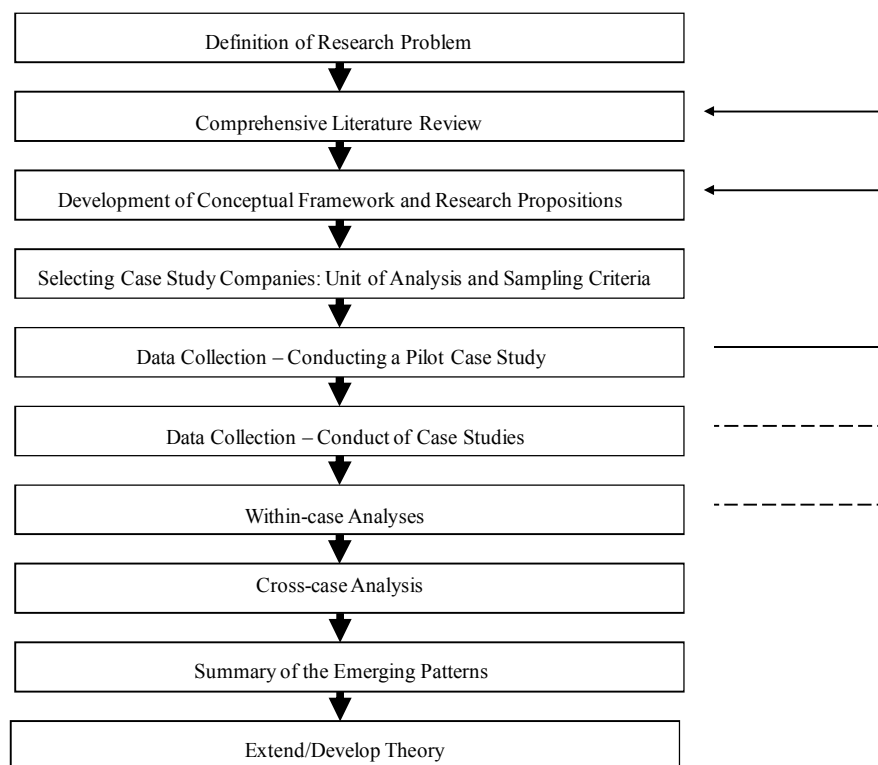
A good scientific research needs to be based on a theoretical foundation with methodological sophistication ensuring rigour, accuracy, objectivity, generalisability, testability, and replicability (Cavana et al., 2001). This can be achieved with systematic procedures and by providing information about the research design, for example, on sampling logic, data collection process, and analysis and composition (Parkhe, 1993, Miles and Huberman, 1994, Yin, 1994, Paré, 2004). It could be argued that this is especially important in qualitative studies. For example, there are arguments that lack of rigour in qualitative studies in international business has contributed to their relatively low number in high level international journal publications so far (Pauwels and Matthyssens, 2004). In this section these issues will be addressed.

As discussed in section 9.2.2, in most qualitative research inductive and deductive approaches are integrated at some level (Parkhe, 1993, Miles and Huberman, 1994). That is, the process moves iteratively between the existing theories, empirical data and the emergent theory (Parkhe, 1993, Miles and Huberman, 1994, Yin, 1994, Dubois and Gadde, 2002). This interplay brings an inductive approach and some cyclical elements even to the more positivist/deductive qualitative studies (Miles and Huberman, 1984, Parkhe, 1993, Yin, 1994, Dubois and Gadde, 2002, Paré, 2004). To be able to manage these, at some level opposing views, a case study protocol was developed for this study following Yin's (1994, , 2003) recommendations for multiple-case studies. Also several other researchers (Parkhe, 1993, Miles and Huberman, 1994, Paré, 2004, Pauwels and Matthyssens, 2004) have emphasised the importance of a clear structure and codification of methods in a multiple-case study. A case study protocol brings consistency, objectivity, rigour, and comparability to a research project and improves its generalisability (Sekaran, 1992, Yin, 1994, Cavana et al., 2001, Paré, 2004). It could also be argued that by including several cases rigour and generalisability are automatically brought to the process. On the other hand, a rigorous research design and standardisation at some level is even more important in multiple-case studies to maintain consistency and to ensure comparability across individual cases (Miles and Huberman, 1994).

The case study protocol of this study consists of different phases: the definition of the research problem, a comprehensive literature review, the development of a conceptual framework and specific research propositions, the selection of the case companies, data collection (a pilot case study and the rest of the case studies), within-case analyses, a cross-case analysis, summary of the emerging patterns and the possible revision of the conceptual framework, and extension of the theory (see Figure 9.1). The protocol follows sequential steps, but includes iterative feedback loops as recommended in qualitative studies. The conceptual framework and the emerging theory will continue to develop based on the analysis of the data from the pilot case study but also during the rest of the data collection and

analyses. Each of the phases will be discussed more in-depth in the next sections of this chapter.

**Figure 9-1 Case Study Protocol**



### 9.3.1 Definition of Research Problem

The first phase of the research is to define a research problem. This step of the process was already discussed and research problem defined in section 1.2. Also, the (preliminary) broad research questions were defined at this phase to guide the research process further. A qualitative researcher should always have a research objective as ‘a pole star’ to guide the process (Cavana et al., 2001).

### 9.3.2 Comprehensive Literature Review

A good and comprehensive literature review on existing theories is a foundation for the development of the conceptual framework and specific research propositions (Miles and Huberman, 1994, Yin, 1994, Cavana et al., 2001). In this multidisciplinary study an extensive

literature review on relevant disciplines, that is, international business and strategy theories, and on specific research areas such as service internationalisation, telecommunications, and internationalisation of companies from SMOPECs, was conducted. In other words, a broad review of other than the 'core theories' was included in the review (Yin, 2003). Miles and Huberman (1994) argued that this type of multidisciplinary approach improves the level of a qualitative study.

### **9.3.3 Development of Conceptual Framework and Research Propositions**

As Siggelkow (2007', pg. 21) claimed: "*a paper cannot just stand on its descriptive feet*". Thus, an explanatory/illustrative case study needs to provide theoretical ground for the cases to strengthen its explanatory power (Yin, 1994, Ghauri et al., 1995, Siggelkow, 2007). In this study the conceptual framework is recommended to provide this theoretical ground, as a middle-ground is taken between inductive and deductive reasoning; that is, the study takes an abductive approach and is more theory development/refinement than a theory generating study (Dubois and Gadde, 2002). In an abductive study the developing framework is the key structure to which the case data then provides both input and output (Dubois and Gadde, 2002).

As already discussed in section 8.2, the conceptual framework - a graphical description of key ideas, constructs and factors - includes comparisons with similar and conflicting literature, and increases the theoretical level of the study by applying analytic generalisation. In summary, the conceptual framework brings more generalisability to the findings (Yin, 2003, Silverman, 2005).

As also discussed in section 8.4, the conceptual framework was then used to develop specific research propositions; that is, to operationalise the conceptual framework. These propositions will then be compared across the multiple-cases and with different theories during the cross-case analysis in Chapter 11.

The inductive part of the study is to identify possible idiosyncrasies in the internationalisation of telcos from SMOPECs and factors influencing them that did not emerge during the literature review, or situations where the previous findings have been inconsistent. That is, the framework may be modified as a result of any unanticipated findings from the case studies (Dubois and Gadde, 2002).

#### **9.3.4 Selecting Case Study Companies: Unit of Analysis and Sampling Criteria**

The unit of analysis in this study will be a company, a national telecommunication company. Some studies on telcos have focused either on their mobile businesses or data businesses. However, it could be argued that a more holistic approach, which includes the whole company, is necessary when its internationalisation strategies, including organisation strategies, and decisions influencing them, are analysed.

Theoretical sampling, namely, replication logic instead of sampling logic, was used to select the case study companies. This type of purposive sampling is in-line with recommendations by several researchers on case studies when the aim is to extend existing theories (Eisenhardt, 1989, Miles and Huberman, 1994, Yin, 1994, Cavana et al., 2001, Dubois and Gadde, 2002, Saunders et al., 2003, Ghauri, 2004, Paré, 2004, Silverman, 2005). This means that the case companies are not chosen on statistical grounds, but on conceptual grounds to fill theoretical categories and increase confidence in findings (Eisenhardt, 1989, Miles and Huberman, 1994, Ghauri, 2004). They need to be typical and informative cases that most likely will confirm and sharpen the emerging theory being evaluated (Eisenhardt, 1989, Stake, 2000, Dubois and Gadde, 2002, Paré, 2004). That is, they illustrate particular organisations or processes that the researcher is interested in and situations in which the process most probably takes place (Saunders et al., 2003, Silverman, 2005, Siggelkow, 2007). The cases need to be consistent with the conceptual framework and research propositions of the study (Ghauri et al., 1995, Silverman, 2005).

In a multi-case study the objective is to replicate the process/phenomena in a predictable manner (Yin, 2003, Ghauri, 2004). That is, each case needs to serve a purpose (Yin, 2003, Ghauri, 2004). In literal replication cases that predict similar results and, in theoretical replication, cases that predict contrary results are chosen (Parkhe, 1993, Miles and Huberman, 1994, Yin, 2003, Ghauri, 2004, Pauwels and Matthyssens, 2004, Silverman, 2005). Literal replication, based on theory, improves the rigour and generalisability of the study (Yin, 2003, Silverman, 2005) (although not on a statistical, but on theoretical grounds, as already mentioned). Also, multiple-cases, if their patterns are predictable, add confidence to results and to the emerging theory (Miles and Huberman, 1994). In this study literal replication is used.

The number of cases required in a multiple-case study is an issue that is not decided on statistical grounds (Miles and Huberman, 1994). The adequate number depends on the complexity of the research, and the decision should be made conceptually and when the confidence to analytic generalisation has been achieved (Miles and Huberman, 1994). A multi-case study can consist of two cases when literal replication is used (Paré, 2004), although in most studies the number seems to vary from 4 to 12 cases.

The criteria for choosing the case companies in this study was based on the conceptual framework and on the aim to select a typical telco from a SMOPEC that started to internationalise relatively early (to ensure longitudinal analysis). The criteria for a case study company were as follows: it has been a government owned national telecommunications company in a SMOPEC; it has been a significant monopoly if not in all, at least in most areas of its businesses; its domestic markets have been liberalised (deregulated) and it has faced increased competition; and it has started its internationalisation in the 1990s or earlier.

The list of potential case companies was compiled from the International Telecommunication Union databases, by interviewing industry informants, and from the personal insight of the researcher. Some 15-20 companies met the criteria of the conceptual

framework and research propositions, as suggested by Silverman (2005). Four of them were chosen as case study companies<sup>50</sup>. These companies are from four different home countries across Europe, Asia and Oceania; that is, Singapore Telecommunications Limited (SingTel) from Singapore, Sonera Oyj (Sonera) from Finland, Telia AB (publ) (Telia) from Sweden, and Telstra Corporation Limited (Telstra) from Australia.

This choice of companies/countries also addresses the demand by several researchers (Roberts, 1998, Samiee, 1999, Evans et al., 2000b, Bryson, 2001, Tihanyi et al., 2005) for more cross-national research on the internationalisation of services. So far the research on the internationalisation of services industries has been largely focused on one country at a time instead of a more worldwide view (Bryson, 2001). This may have resulted in some country specific factors being dominant in respective theories and models (Knight, 1999).

### **9.3.5 Data Collection: Conducting a Pilot Case Study**

Although the nature of all qualitative research is inductive at some level, as already discussed, this is even more so with regards to a pilot case study. Pilot case study interviews can provide input for additional literature review and for the refinement of the conceptual framework and research propositions (Eisenhardt, 1989). In this study Sonera was chosen as a pilot case study, resulting in the number of interviewees for this case study being relatively higher than for the others.

### **9.3.6 Data Collection: Conduct of Case Studies**

The primary data for the empirical analysis has been collected through in-depth interviews of senior level managers or ex-managers of the case study companies. The managers were key decision makers in the companies' internationalisation strategies<sup>51</sup>. That

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<sup>50</sup> Due to the holistic nature and cross-nationality of the study, four case studies was a maximum number that was still manageable and within the research budget. As discussed in the previous section, this number should be sufficient for a multi-case study (for example, Yin's recommendations).

<sup>51</sup> These senior level managers included CEO's, COO's and strategy directors responsible for the internationalisation strategies of the companies. Altogether 12 personal interviews of senior level managers were conducted. In addition, some other senior level managers were contacted by email and/or over phone and/or met

is, the executives who had been closely involved in the internationalisation processes were selected (Ghauri et al., 1995, Eisenhardt and Graebner, 2007). The objective in this type of study is that the interviews of knowledgeable managers would provide rich data, insights, examples of events, and relationships between the factors that would have been otherwise left unidentified (Cavana et al., 2001). Interviews are often the only way to find information about strategic decision making process of an organisation (Larimo, 1995). Also, unlike survey methodologies, interviews allow an opportunity to clarify questions from an interviewee, improving validity especially in a cross-border study (Parkhe, 1993, Ghauri, 2004).

Some supportive interviews with managers from other levels were also conducted, especially for the pilot case study, to gain a better understanding of the phenomena (Eisenhardt and Graebner, 2007). This addressed the demand for synchronic primary data source triangulation; that is, several interviewees were interviewed on the same topic, as suggested by several researchers (Daniels and Cannice, 2004, Pauwels and Matthyssens, 2004, Eisenhardt and Graebner, 2007).

Interviewees received a letter of introduction (and a confirmation email with some open questions) prior to the interviews in which the background and the main objectives of the research were explained (see Appendices 4 and 4b). The interviews were semi-structured starting with an open question aiming at eliciting a description of the internationalisation process of the company (Eisenhardt, 1989, Cavana et al., 2001). Verification questions were asked based on the conceptual framework and research propositions of this study. For this purpose and to ensure that all the relevant areas were covered and to improve comparability across the multiple-cases, the researcher had a support-question list (Eisenhardt, 1989, Cavana et al., 2001) (see Appendix 5). These questions included issues such as reasons and motives for the company to internationalise, different phases in the internationalisation

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in seminars to discuss some detailed questions. Also some other managers and/or communications personnel provided help to gather some background information and general data.



process, factors that have influenced the internationalisation decisions, and perceived successfulness of different internationalisation activities. Also, space was left for unanticipated findings (Daniels and Cannice, 2004).

Interviews were recorded and transcribed. Also, the researcher took notes which were compared with the transcribed interviews. The interviews on Sonera were conducted in Finnish whilst the other interviews were in English<sup>52</sup>. The interviewees were also asked to review the case study draft for factual verification, as recommended by several researchers (Miles and Huberman, 1994, Yin, 1994, Cavana et al., 2001, Welch et al., 2002, Daniels and Cannice, 2004).

In addition to interviews, annual reports, company presentations and web-pages, press releases, journal articles and other published case studies on the case companies (with different perspectives), books and book chapters, newspaper articles from various economic and management papers, and public statistics were used comprehensively in the case study analyses (see Appendix 3)<sup>53</sup>. A database was created for each case company. These procedures were based on the recommendations of Eisenhardt (1989), Parkhe (1993) and Ghauri (2004) to ensure the use of multiple data sources.

### **9.3.7 Within-case Analyses**

The multi-case study analysis started with a within-case analysis of each individual case study, as recommended by Eisenhardt (1989), Parkhe (1993) and Yin (1994). That is, evidence, facts and conclusions are sought per each individual case study first (Yin, 1994).

The individual case reports include chronological case descriptions, which are important especially in longitudinal studies, and a more structured analysis based on the conceptual framework model (Ghauri, 2004, Silverman, 2005). At the pattern matching phase

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<sup>52</sup> In the Finnish interviews the researcher transcribed the interview and translated the quotes used in the thesis to English. These were then verified by the interviewees.

<sup>53</sup> Most of this additional case study material was in English. Some Finnish and Swedish source data were also covered for Sonera and Telia case studies, respectively.

the data was divided into categories based on the conceptual framework, and compared systematically with similar and conflicting literature (Yin, 2003, Ghauri, 2004, Pauwels and Matthyssens, 2004). The emerging within-case patterns were identified and evaluated based on how well they fit the propositions (Eisenhardt, 1989, Yin, 2003, Ghauri, 2004, Pauwels and Matthyssens, 2004, Silverman, 2005). The purpose was to search for and display evidence, search for common themes, understand the causal relationships, rule out rival theories, and identify any gaps in the data (Eisenhardt, 1989, Ghauri, 2004, Pauwels and Matthyssens, 2004).

For analytical purposes the data was coded based on the concepts and themes of the study (Eisenhardt, 1989, Ghauri et al., 1995, Ghauri, 2004, Pauwels and Matthyssens, 2004). In the coding process, and for the retrieval and analysis of the data, NVivo software for qualitative research was used. This allowed codes ('nodes') to be created and/or merged fluently for any new discoveries/categories that arose during the process. That is, in practice descriptive and creative coding overlap in qualitative research (Richards, 2002, Pauwels and Matthyssens, 2004). In these cases additional findings in the literature were also examined (Pauwels and Matthyssens, 2004). Tables and matrices were used to organise, analyse and present both chronological and conceptual data, based on the recommendations of Eisenhardt (1989), Miles and Huberman (1994), and Ghauri (2004).

### **9.3.8 Cross-case Analysis**

Following the within-case analyses a cross-case analysis was drawn. The conceptual framework structure was used to bring together the data from each individual case study. That is, pattern matching logic is now continued with a systematic comparison in a cross-case analysis (Yin, 2003). Patterns that emerged from the within-case analyses were compared with each other, with the research propositions and the emerging theory, and with alternative theories (Parkhe, 1993, Ghauri et al., 1995, Yin, 2003, Pauwels and Matthyssens, 2004). Similarities and variations were analysed and causal meta-patterns developed (Eisenhardt,

1989, Pauwels and Matthyssens, 2004). Tables and meta-matrices were used, including direct quotes from the respondents, to compare the data and to present it (Miles and Huberman, 1994, Ghauri, 2004).

### **9.3.9 Summary of the Emerging Patterns**

The emerging patterns from the case analyses were identified and summarised. When the process has included systematic pattern matching with the empirical data, the emerging theory, and the alternative theories, analytical generalisation has been ensured (Miles and Huberman, 1994, Keating, 1995, Dubois and Gadde, 2002, Yin, 2003, Pauwels and Matthyssens, 2004). If systematic patterns are found, then the propositions can be accepted (Ghauri et al., 1995). Generally, if the patterns from two or more cases provide support to a theory, replication can be confirmed (Yin, 2003). In some categories similar patterns may emerge, whereas in others not (Eisenhardt, 1989). Confidence in the findings increases significantly if alternative explanations have also been considered and reasons given as to why they do not hold (Siggelkow, 2007); that is, to demonstrate that the data supports the emerging theory, but not an alternative theory (Yin, 2003). It needs to be noted, though, that the findings are not statistically generalisable outside the sample (Ghauri et al., 1995, Pauwels and Matthyssens, 2004). Only the validity of the theory directly linked to phenomena and research propositions were evaluated (Yin, 2003, Pauwels and Matthyssens, 2004).

### **9.3.10 Extend/Develop Theory**

Llewellyn (2003) argued that there are five different levels of theorisation: metaphors, dualities, conceptual development, context-dependent theories, and context-free 'grand-theories'. As discussed earlier, in this research the term conceptual framework has been used, rather than a theoretical framework, even though the objective is that the final framework would fulfil the requirements of at least the context-dependent theory.

As discussed earlier, in an explanatory/illustrative case study the contributions to theory will extend and refine the existing theories rather than generate a new one. Also, the objective for these types of studies is to develop sub-models to contribute to a more comprehensive grand theory, rather than a grand theory itself (Benito and Welch, 1994, Liesch et al., 2002). That is, an objective and a result in an explanatory/illustrative study is in most cases a middle-range theory in which the phenomena and context was analysed in categories, and which together with in-depth analyses were linked back to the grand theory (Pauwels and Matthyssens, 2004). However, to be relevant the middle-range theory needs to be different from the existing theories at least in one of its parameters in its explanation of the specific event under analysis (Pauwels and Matthyssens, 2004).

#### **9.4 Validity and Reliability of the Research**

The methods to test the quality of the multi-case study process; that is, rigour and accuracy, include tests on construct validity, internal validity, external validity and reliability, as recommended by several researchers (Miles and Huberman, 1984, Parkhe, 1993, Miles and Huberman, 1994, Yin, 1994, Cavana et al., 2001, Yin, 2003, Andersen and Skaates, 2004, Pauwels and Matthyssens, 2004) (see Table 9.1).

Table 9-1 Testing Validity and Reliability

<b>Tests</b>	<b>Tactics</b>
Construct validity	<ul style="list-style-type: none"> <li>* Multiple sources of evidence used (in-depth interviews, annual reports, company presentations and web-pages, press releases, journal articles, books and book chapters, newspaper articles, and public statistics)</li> <li>* Synchronic primary data source triangulation (several interviewees)</li> <li>* Chain of evidence established (between case study report, database, citations, protocol, and questions)</li> <li>* Key informants were asked to review a draft of the case study report</li> </ul>
Internal validity	<ul style="list-style-type: none"> <li>* Conceptual thinking and keeping research questions/propositions in mind</li> <li>* Pattern matching between patterns defined in the conceptual framework and patterns found from the empirical data</li> <li>* Explanation building addressing rival explanations (analytic generalisation)</li> <li>* NVivo software, and data displays and matrix techniques suitable for qualitative research were used</li> </ul>
External validity	<ul style="list-style-type: none"> <li>* Literal replication logic used, as recommended for multiple-case studies</li> </ul>
Reliability	<ul style="list-style-type: none"> <li>* Case study protocol developed and used</li> <li>* Case study database developed</li> <li>* Systematic documentation used</li> <li>* Possible researcher's subjectivity acknowledged</li> </ul>

*Source: Adapted from Yin (1994, p. 33), COSMOS Corporation*

To test construct validity multiple sources of evidence and different data collection methods were used combining both primary and secondary data sources (Eisenhardt, 1989, Parkhe, 1993, Miles and Huberman, 1994, Yin, 1994, Ghauri et al., 1995, Cavana et al., 2001, Andersen and Skaates, 2004, Pauwels and Matthyssens, 2004). Various respondents were interviewed whenever possible due to access issues (synchronic primary data source triangulation) (Pauwels and Matthyssens, 2004), as mentioned earlier. A chain of evidence was established between the case study reports, the case study databases, citations, the case study protocol, and the case study questions (Yin, 2003). In the composition phase of the study the key informants were asked to review the draft of the case study to cross-check the findings with the researcher. All this will result in more comprehensive and holistic case study 'portrait' (Ghauri et al., 1995, Ghauri, 2004).

Internal validity was ensured by maintaining conceptual thinking throughout the research process and keeping broad research questions in mind (Miles and Huberman, 1984, Yin, 1994). This included pattern matching between the patterns defined in the conceptual framework and the ones identified in the data collection phase of this study (Miles and Huberman, 1994, Yin, 1994). That is, analytical generalisation was used in explanation building by linking the findings to the propositions/extant literature and the emergent theory, while at the same time excluding any alternative theories (Miles and Huberman, 1984, Parkhe, 1993, Miles and Huberman, 1994, Yin, 1994, Pauwels and Matthyssens, 2004), as already discussed earlier. This was conducted systematically starting with individual within-case analysis and later with the cross-case pattern matching. Codes and pattern codes were created for the data analysis (Miles and Huberman, 1994). In addition, data displays, such as conceptually-ordered displays, charts, figures, and matrices, such as time-ordered matrices, and conceptually-clustered matrices and meta-matrices, were used based on the recommendations of Miles and Huberman (1994) for qualitative research. Supportive tables to present the events chronologically were used to help identify causalities (Miles and

Huberman, 1994). As Cavana et al. (2001) argued, the analysis of the sequence of time is essential in qualitative research on processes.

External validity was achieved with literal replication (Parkhe, 1993, Yin, 1994), by selecting four typical cases. This method, used broadly in multiple-cases by many researchers, can be scientifically as valid as other sampling logics (Parkhe, 1993). Also, the findings were connected to the prior theory, and suggestions for further tests were made (Miles and Huberman, 1994).

Reliability was ensured with the development of a case study protocol (see Section 9.3) (Miles and Huberman, 1994, Yin, 2003, Paré, 2004). It is not feasible to replicate the whole qualitative study due to complexity, but as detailed a description as possible of the research process will improve the transparency, comparability, testability, replicability and confidence in the study (Sekaran, 1992, Miles and Huberman, 1994, Cavana et al., 2001). This was further enhanced by systematic documentation, for example, case study databases were created, key words for data searches listed, and sources of the empirical data identified (Parkhe, 1993, Miles and Huberman, 1994, Perry, 1994, Yin, 1994, Perry, 1998, Paré, 2004). Also, the 'voice of the source' was reported using the actual words (quotes) of the interviewees (Cavana et al., 2001, Ghauri, 2004). Ideally another researcher will be able to replicate the study and end up with the same conclusions (Paré, 2004).

Finally, Cavana et al.'s (2001) recommendations for reliability were followed by acknowledging any possible subjectivity and to prevent any unacceptable personal effect or contamination by the researcher. They argued that as it is nearly impossible to avoid this type of influence in a study, a researcher needs to be aware of their 'frame of reference', and try to benefit from their insight. This is inline with Miles and Huberman's (1994) argument on objectivity, that a good qualitative researcher needs to be familiar with the phenomenon and the environmental setting, and his/her own personal assumptions and biases. Naturally, the

objective of the researcher has been to report and interpret the empirical data as authentically and precisely as possible (Cavana et al., 2001).

## **9.5 Summary**

In this chapter different research methodologies were reviewed and discussed. It was argued that a multi-case study methodology is the recommended research strategy for the investigation of the research problem and research gap identified in the literature review. Research design and case study protocols were outlined. Finally, the tests for research quality, that is, validity and reliability, were discussed. In the next chapter the four case studies will be introduced and within-case analyses reported.

## **10 Empirical Findings – Within-case Analyses**

### ***10.1 Introduction***

In this chapter the individual case descriptions and within-case analyses of the four case study companies, SingTel, Sonera, Telia and Telstra, are presented.

The majority of the initial case study interviews were conducted in 2004 and 2005. The rest of the material for this empirical part was collected between June 2003 and May 2009, including additional questions and reviews by the interviewees. The analysis focuses on the internationalisation operations and activities of the case companies at their establishment until 2005.

Each case section includes within-case analyses per each sub-strategy, namely product, operation, market and organisation strategy, as defined in the conceptual framework developed in Chapter 8. In addition, summary tables of the within-analyses are provided in the appendices. Moreover, brief introductions and histories, detailed case descriptions of the most important internationalisation milestones, and tables of chronological internationalisation developments are also included in the appendices.

These findings will be further discussed in the cross-case analysis in Chapter 11, including more in-depth discussion about the factors influencing these strategies.

### ***10.2 Analysis of the Internationalisation Strategies of SingTel***

The internationalisation strategies of SingTel are analysed in the following sub-sections and summarised in Appendix 6 d. These analyses are based on the descriptive case data of the company's internationalisation milestones (see Appendix 6 for the case description, Appendix 6 b for 'History of SingTel and the Singaporean Telecommunications Sector', and Appendix 6 c for 'SingTel's most important international activities in chronological order').



### **10.2.1 Product Strategy**

SingTel started as a telegraphic and telecommunications company, but later, following similar developments globally among telcos, it developed a more diversified product portfolio, including postal services and directories. In domestic markets the company was responsible for the whole telecommunications value chain, providing telecommunications equipments and terminals, and telecommunications services, including fixed-line, paging, mobile, and data services.

This monopoly position included being the sole provider of international telephone services to and from Singapore, a service provided with mostly bilateral interconnection contracts with other national monopoly telcos. For SingTel international telephone calls was a very important business area for decades, for example, generating almost 50% of revenues during the 1980s and early 1990s. This and the company's involvement in international submarine cable and satellite systems were originally serving the needs of its domestic customers.

The first product targeting customers in international markets was selling know-how, consulting services. In the following and more rapid internationalisation phase the company's international product strategy became very diversified including investments in cable-TV, paging, mobile phone, fixed-line, data network operators, that is, in systems that can be classified as location-bound and asset-based services. During the global telecommunications boom, the company also actively invested in e-commerce, internet-based services, and IT-technology companies to anticipate the predicted convergence developments in the industry, and in some directory and publishing companies.

However, after this initially very opportunistic product strategy, the company made a decision in the mid 1990s to focus on its core telecommunications businesses, and later, after the global telecommunications bust, increased its focus even more by divesting most of its

investments in the born global-type of internet and e-commerce companies. Mobile telecommunications became its international spearhead, complemented with closely related fixed-line and data communications services. Thus, as reflected in the statement by Allen Lew, the COO of STI (Business Time Singapore, 20 Aug 1997):

*One of the key lessons we've learnt after investing overseas for a couple of years is that we will stick to our area of expertise, as a network provider, providing telecommunication services in the major areas of telecoms.*

In the latest phase of internationalisation the company again increased product diversification, but now bundling these core products, rather than focusing purely on one business area, such as mobile communications. This was different from the strategies of some of the large focused and 'global' players in the sector, and from the consensus-view in the industry just a few years earlier. As stated by a SingTel senior manager:

*Today's philosophy is different. Now you should not be just doing one thing. You put the things together. You sell fixed [line] and mobile together and you can do it successfully. So customers see value and not only that - you get a lock in. Because [customers] cannot return half of your service and keep the other half.... It is the convergence, basically.*

This strategy was also supported by its investment in NCS, an IT services provider targeting the government and B2B sector<sup>54</sup>.

To sum up, the company's product strategy developed from a diversified unrelated domestic strategy, to a very opportunistic and diversified international product strategy, to a very focused one, and finally to a diversified strategy focusing on related core-businesses. The first operations were selling know-how, but soon investments in location-bound and asset-based services followed. With regards to B2B operations the product strategy was focused on international data and telecommunications services.

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<sup>54</sup> Although most of NCS's revenues were generated in the domestic market (only 16% of its revenues generated internationally in 2003), the company was actively increasing its presence in the Asian region, thus supporting SingTel's overall strategy with regards to its MNE customers.

## 10.2.2 Operation Strategy

The first international operations for SingTel were inward modes, buying telecom equipments to build networks and sell terminals, and co-operation modes with other telcos, such as interconnection contracts and submarine systems to provide international telecommunication services. Significant outward modes targeting overseas markets did not occur until the end of the 1980s.

This active outward internationalisation phase started with consulting services, that is, transhuman exports. However, soon the company began to invest in foreign companies/operations. It is notable that most of these investments were minority shares in JVs/companies rather than wholly-owned subsidiaries or majority ownerships. It also needs to be noted, though, that in most cases the company did aim for a significant share, rather than pure financial investment, as it wanted to have an influence and to be able to contribute. As the Chief executive of STI, Sung Sio Ma, explained (Asia-Pacific Telecoms Analyst, 1995, p.11):

*Below 20 per cent we're not interested. Generally we try to go for a majority stake, but that's not always possible.*

Another senior level manager outlined:

*We are not a pure financier. No point for us to just look at [investing] money and then do nothing. We pursue investment and strategy fit.*

*We work with partners of the same vision. We like to work with them. We acquire majority stake only when available. In most of [the international investments] we don't do it. We [usually own] 20% to 35%.*

The further the internationalisation developed, the company gradually increased its ownership share in many of its investments and aimed at fewer but larger investments<sup>55</sup>. However, it did not have an urge to own a majority, thus did not actively enforce its partners to sell. It's most significant overseas investment, Optus, is a subsidiary with 100% ownership, but all other major overseas investments remained mostly JVs with a significant minority

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<sup>55</sup> SingTel's mobile investments were in most cases the leading operators in their country markets, such as Globe Telecom, AIS, Bharti, Telkomsel, or having a clear number 2 challenger position, such as Optus.

share. This aim for relatively larger investments in existing companies contrasted with challenges in extending the company's resources is reflected well in the comment of Allen Lew, COO of STI (Business Times Singapore, 20 Aug 1997):

*Whether you go in on an S\$20 million or S\$1 billion investment, you still need to put people on the ground. What we are trying to do is to put two or three of our good people in projects that will yield profits in the range of (Belgian state telephone operator) Belgacom - hundreds of millions of dollars,*

With regards to its B2B operations, the company invested in wholly-owned subsidiaries in the leading business centres globally. These were mostly sales and liaison offices, with some minor production and maintenance operations.

In the early phases of the internationalisation, the company was also active in multilateral global alliances with other incumbent telcos. However, these were relatively short-lived. It could be argued that the further the deregulation developments and international competition progressed, the more conflicts of interest between different parties emerged. Also, the different developments in deregulation between different country markets created challenges to the operations of these alliances. In 2004 the company, with its associate companies and a few other Asian operators, established a regional mobile alliance Bridge. It is still too early to evaluate the success of this alliance<sup>56</sup>.

### **10.2.3 Market Strategy**

With regards to its international market strategy, when SingTel started with consulting projects, it targeted mainly developing countries, including countries outside of its home region. This was followed by an even more opportunistic and rapid phase of internationalisation, during which psychic distance did not seem to be a very significant factor. Target markets located around the world, for example, in the US, Sweden, Norway,

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<sup>56</sup> The cooperation focuses mostly on providing seamless services to each partner's customers and on some product development, rather than sharing network capacity or significant investments. Thus, potential conflicts of interests may be more easily avoided. Also, the fact that most of the alliance partners are SingTel's associates should help in this matter.

the UK, Australia, the Middle East, and across the Asia-Pacific region. It could be argued that the market strategy was global at this phase<sup>57</sup>.

Following this opportunistic global phase, the company then made a strategic shift to focus on its home region in the mid 1990s. It divested most of its investments outside the Asia-Pacific. After the telecom bust in 2000 - 2001, this focus on the home region became an even more the dominant strategy. That is, the company implemented a regional market strategy.

Interestingly, SingTel has not been very successful in trying to enter its closest neighbouring countries / countries with small psychic distance, such as Malaysia and Hong Kong<sup>58</sup>. This finding will be discussed further in Chapter 11, in the cross-case analysis of market strategies / host country factors.

With regards to its B2B operations, the company has targeted the largest business centres globally, although with relatively greater focus on the Asia-Pacific region in this business area as well.

#### **10.2.4 Organisation Strategy**

With regards to its organisation strategy, at the first phase the company moved from a domestic to an international one, in which STI operated as a clearly separate international arm (with transhuman export activities). Soon the development moved towards a more multidomestic strategy, with significant FDIs and clearly separate organisations in each target market (for example, independent company CEOs, and different company names, brands and products).

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<sup>57</sup> For example, in 1994, based on the statement of Sung Sio Ma, the Chief executive of STI, 44% of the company's investments were in Europe, 35% in Asia, and 21% in the US (Business Times Singapore, 1994). Prior to the shift in strategy, the share of the company's investments in Europe increased to almost three-quarters of its total investments (Business Times Singapore, 1995).

<sup>58</sup> Generally, Malaysia (2.) and Hong Kong (4.) were among the top five FDI destinations for Singaporean companies (Pangarkar and Lim, 2003).

The further the internationalisation process proceeded, the more the company was looking for synergies between its different country organisations, especially between its mobile associates, in areas such as R&D, purchasing, management of networks, HRM, and marketing, thus being able to benefit from economies of scale advantages. As explained by SingTel's Chairman, Koh Boon Hwee (SingTel Annual Review 1998/99):

*Besides the financial returns we receive from our overseas projects and ventures, SingTel also seeks to maximise synergies from its investments. For instance, SingTel Mobile is exploring the feasibility of launching regional mobile products and services jointly with our partners.*

The company also acknowledged that it had been able to learn from other countries, as an incumbent telco often possesses different types of competences than a challenger. Since the acquisition of Optus this development continued further. The company stated that it now had two hubs. Also, the number of non-Singaporeans on both their Board of Directors and senior management team increased significantly, and, the company hired many of its key employees globally.<sup>59</sup> The establishment of the Bridge alliance was a further indicator of SingTel's emphasis on sharing information between its associates, and back to the home country, instead of only from the home country to each individual host market; all these are characteristics of a transnational strategy.

With the bulk of their businesses SingTel never implemented a global organisation strategy<sup>60</sup>. It could be argued that having companies with different market positions, that is, a dominant position in the domestic market versus a challenger as for example, in Australia, and a mix of developed and developing target markets in its business portfolio, prevents the implementation of an effective global strategy. However, this was not the case with regards to its B2B operations, with investments in all major markets, standardised products, and the

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<sup>59</sup> In 2004 Optus contributed more than half of SingTel Group's revenues (KeyLines, June 2004). In 2003 a Thai national, Mr. Chumpol NaLamlieng, was nominated as the Chairman of the Board of Directors, and four out of 10 directors were non-Singaporeans, compared to a fully Singaporean board just three years earlier (SingTel Annual Review, 2002/03).

<sup>60</sup> For example, all organisations in different countries have their own brand names and are mostly managed by separate organizational structures, rather than functional or product-based global divisions.

company's brand utilised globally. That is, with regards to its B2B operations, it could be argued the company implemented a global organisation strategy.

### **10.3 Analysis of the Internationalisation Strategies of Sonera**

The internationalisation strategies of Sonera are analysed in the following subsections and summarised in Appendix 7 d. These analyses are based on the descriptive case data of the company's internationalisation milestones (see Appendix 7 for the case description, Appendix 7 b for 'History of Sonera and the Finnish Telecommunications Sector', and Appendix 7 c for 'Sonera's most important international activities in chronological order').

#### **10.3.1 Product Strategy**

The company started as a telegraph office, and soon became responsible for telephone services domestically and international connections to and from Finland. The whole organisation, PTO, was also responsible for postal services. That is, the early product strategy was relatively diversified. The company was responsible for the whole telecommunications value chain in its domestic market, including equipment sales.

The first internationalisation operations were focused on providing know-how; that is, consulting services in developing countries. In the late 1980s it started its first overseas investments in IT-services business and building cable connections in the Soviet Union, invested in analogical mobile networks in different regions in the Soviet Union, in analogical and digital mobile networks and also in fixed-line operators in the Baltic States. The strategy was very diversified, although in related business areas. For the most part the investments were in location-bound and asset-based services.

When the more rapid phase of internationalisation started, the company continued its investments in GSM networks but also made significant investments in 3G licences, and started new business areas in value-added mobile services (that is, non-network-based

services such as ring-tones, logos, security software and services). It also invested in some technology and directory companies in several markets, and established a venture capital fund of its own. Many of these businesses were niche-types of businesses targeting global markets in their specific product segments. At this phase the company's spearhead was its mobile phone business and most of the international operations were closely related in this business area, although in neighbouring countries, particularly in the Baltic States, it was also engaged in fixed-line services. In spite of the company's reputation as a front runner in data communications, the company never engaged in any significant data network operations internationally, the Russian cable connection being an exception<sup>61</sup>.

During the de-internationalisation phase and after, the product strategy moved back towards a more traditional telco business. It divested many of its non-core businesses acquired during the rapid internationalisation phase. For example, it divested all of its global value-added service businesses. Although the company had a competitive edge in being one of the pioneers in mobile technology, it had faced challenges in that other telcos and other industry players were not very enthusiastic to buy services from a potential competitor. The company moved more towards a traditional telco with an integrated business model including both mobile and fixed-line services and related telecommunications services, and bundling these services together in many markets, especially after the merger with Telia<sup>62</sup>.

To sum up, the company started with a diversified unrelated domestic product strategy, followed by a more opportunistic and diversified phase (from selling know-how to investments in location-bound and asset-based services, and value added mobile services), later developing to a more focused international one, and finally to a diversified related product strategy in which different services were bundled together.

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<sup>61</sup> The company was perceived to be one of the global pioneers in providing ATM (Asynchronous Transfer Mode) data services for B2B customers. However, internationally they chose to operate through cooperation, rather than investing in their own data networks.

<sup>62</sup> In Russia, Turkey, and Central Asia the focus remained on mobile operations.



With regards to B2B operations the product strategy was focused on international data and telecommunications services, although the relative importance of these businesses for the company was not very significant. This was especially the case during the most rapid internationalisation phase when its focus was almost solely on consumer products.

### **10.3.2 Operation Strategy**

Due to its dominant position as the monopoly provider for Finland's international telecommunications connections, historically the company was actively involved in interconnection negotiations and other cooperative activities with incumbent telcos from other countries. The first outward operations were exporting consulting services to developing countries, that is, transhuman exports. In the late 1980s it made in its first overseas investments, mostly minority investments/joint ventures with local partners. Most of these investments included at least a 20% share, although also a few smaller financial types of investments occurred as well. Following these initial investments, the company did establish a few wholly-owned subsidiaries, for example, in Belgium, Russia, Sweden, and the US, but these were mostly liaison offices and/or B2B operations. Overall, the company's long term strategy was not to enter into international investments as a majority owner. For example, it perceived that to have a significant local owner makes it easier to operate in a foreign environment. Other motivations for joint ventures were risk sharing in investments and when partnering with other international telcos, improving the possibility to secure the deal/licence in the first place<sup>63</sup>. However, over time, the company did increase its ownership share in some selected operations. During the later phase of its internationalisation process, after it had merged with Telia, the company faced some significant challenges when it aimed at majority stakes and not all partners were willing to sell.

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<sup>63</sup> One of the interviewees especially emphasized the importance of choosing the right local partner and then clearly agreeing on each partners' responsibilities in cooperation: one of the partners usually brings local knowledge and contacts, whereas the other brings in business and technological knowledge. As partners are not competitors with each others, this works well. In cases where there were several telco partners included, some conflicts of interests occurred, especially when the responsibilities between the investors were not stated very clearly and respected by all. Another interviewee noted that in these types of arrangements a threat that a competitor will steal business ideas prevented partners from bringing in their latest knowledge into the JV.

In its global mobile value-added services and other niche type of operations the company entered international markets with wholly-owned subsidiaries. These operations did not require infrastructure investments in networks, thus they were less risky and less costly to implement rapidly.

In its B2B operations the company established a few wholly-owned subsidiaries, but overall these activities were marginal and mostly the company focused on domestic customers in its B2B operations. The company was also engaged in some global strategic alliances to support its B2B operations, such as Infonet. However, these activities were mostly targeted on the company's domestic B2B customers and overall the significance of these types of alliances diminished over time.

### **10.3.3 Market Strategy**

With regards to its market strategy the company's first international operations, consulting in developing countries in Asia and Africa, were very global in nature and emphasizing other than its home region, as is typical in this business area. The following operations focused on the neighbouring countries, the Soviet Union and the Baltic States, but even in these cases the focus varied from that of more traditional internationalisation patterns of Finnish companies, as there were no active entries to developed countries with small psychic distance, such as Sweden and other Nordic countries, Germany, and the UK. Its operations in these countries throughout the different phases of internationalisation were very limited or even considered failures.

During the more rapid internationalisation phase, the psychic distance seemed to be an even less significant factor. The company entered into Belgium, Hungary, Lebanon, Hong Kong, and the US, in addition to failed entries in larger Western European countries such as Germany, Italy and Spain. There was no evident pattern based on psychic distance, although geographical distance seemed to play some role in the entry decisions. With its mobile

services business the company followed a very global market strategy, entering rapidly in several continents, such as Europe, the US and Asia.

During the de-internationalisation phase and after, the focus turned clearly on the home region, or even more specifically, on domestic markets and a few selected investments in the Baltic States, Russia and Turkey<sup>64</sup>. The company retreated from its investments in the USA and Asia, and divested its global businesses. Although the company was still active in Central Asia, these activities were managed through its Turkish operations and at some level could be perceived to be included in a broader definition of a home region (as an extension of Eastern Europe).

Overall the market strategy of the company was closely linked to its product strategy, as in the close markets the product strategy was based on a broad product portfolio, including mobile and fixed-line operations, where as investments in more distant countries focused mostly on mobile operations. As a summary, it could be argued that although psychic distance seemed to play some role, clearly other factors also strongly influenced the company's international market strategies, and often overrode the psychic distance factor.

### **10.3.4 Organisation Strategy**

With regards to its organisation strategy, after the domestic phase the company's strategy resembled that of an international one. Its projects in developing countries and the early infrastructure projects were mostly transhuman exports using the company's competences developed in the domestic markets. For example, it established companies/departments in Finland that were targeting overseas markets: Telecon Oy and Fintelcom.

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<sup>64</sup> Initially the company had an objective to focus also on the few selected Western European countries, Germany, Italy and Spain with 3G operations, but as these plans did not realise, the market focus narrowed even more.

When the more active internationalisation phase started, the strategy moved more towards a multidomestic one. The company invested in foreign companies (FDIs), but all of these companies operated under their own independent management, had own brands, and also own products. Although the company provided technical assistance and competences to these operations, there was little integration across different country organisations<sup>65</sup>. Also, knowledge flows were mainly one-dimensional, from the home country to host countries.

In its network operator businesses the company never implemented a global strategy. However, in its mobile value-added service businesses (Sonera Zed, SmartTrust) the strategies were very global. It could be argued that these companies were born globals with regards to their internationalisation, targeting all continents immediately after their establishment. However, as mentioned earlier, these businesses were short-lived within the group. It could be argued that one reason for this was the challenge in operating two very different types of organisation strategies within one multinational company.

After the company merged with Telia, the merged company adopted many characteristics of a transnational strategy. These will be discussed more in section 10.4.4 on Telia.

#### ***10.4 Analysis of the Internationalisation Strategies of Telia***

The internationalisation strategies of Telia are analysed in the following sub-sections and summarised in Appendix 8 d. These analyses are based on the descriptive case data of the company's internationalisation milestones (see Appendix 8 for the case description, Appendix 8 b for 'History of Telia and the Swedish Telecommunications Sector', and Appendix 8 c for 'Telia's most important international activities in chronological order').

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<sup>65</sup> Some of the interviewees mentioned this as an unutilised opportunity. For example, the company could have learned more from Turkcell's operations in Turkey.

### 10.4.1 Product Strategy

Televerket started as a telegraph office, but soon became responsible for both domestic and international telephone services in Sweden. Already since the late 19<sup>th</sup> century the company manufactured, sold, installed and managed telephones and other telecommunications equipment. That is, the company was highly vertically integrated within the industry value chain. Later the company also became engaged in other business areas domestically, such as cable TV and directory services; that is, having a relatively diversified product strategy (although this never included postal services, as in most other countries).

The company began its outward internationalisation by exporting know-how; that is, consulting services in developing countries. This was followed by exporting goods, such as facsimile systems, and internationalising with non-telco businesses, such as directories and security systems. In the early 1990s it began to invest actively in location-bound and asset-based services, such as analogical and digital mobile networks and fixed-line operators, and in Unisource-related network operations. The strategy was very diversified, although within related business areas.

The further the internationalisation proceeded and accelerated, the more the company invested in mobile networks (mostly GSM), but also began to invest in and start new businesses in value-added mobile services and in internet related businesses (that is, non-network-based services such as mobile portals/software, and internet-based directory services)<sup>66</sup>. The company also invested in some venture capital funds in the ICT sector. These businesses were niche-types of businesses targeting international/global markets in their specific product segments. Also, the investments in the international carrier networks continued, and, indeed, intensified. At this phase the role of global mobile operations and related businesses was relatively important in the company's product strategy, although overall the product strategy remained diversified. However, the further the

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<sup>66</sup> For example, out of Telia Overseas' nine investments all but one, Suntel in Sri Lanka, were in pure mobile operations. In Sri Lanka the company operated in both fixed-line and mobile operations.

internationalisation process developed the more the emphasis moved towards international carrier networks<sup>67</sup>.

During the de-internationalisation phase and after, the product strategy shifted more towards traditional telco business. Telia divested many of its non-core businesses that were either a legacy from its highly diversified domestic phase or were acquired during the rapid internationalisation phase. The company divested or scaled down its consulting arm, manufacturing operations, financing business, directories business, and most of its value-added service businesses. These divestments provided Telia with capital to further develop its core activities and also to financially prepare for its planned merger activities. These de-internationalisation developments continued after the merger with Sonera, as TeliaSonera kept focusing on core telco operations, and divested global niche operations such as SmartTrust and Sonera Zed, companies that were transferred from Sonera.

However, during the later and more mature phase of internationalisation, the company aimed at creating operations which were able to benefit from the convergence within the telco sector; that is, providing a customer offering in which fixed-line, mobile and data services can be bought from a one service provider.

In summary, the company started with a very diversified domestic product strategy, which was then followed by an opportunistic and still diversified internationalisation phase (products varied from selling know-how to exporting goods, to investments in location-bound and asset-based services, and value added mobile services and other non-location bound services), later developing to a more focused international one, and finally, to a diversified related product strategy in which different services are bundled together. That is, in the final phase the company focused on the telecommunications industry, divesting all other

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<sup>67</sup> It could be argued that this change in strategy in the late 1990s is related to the change of the company's CEO. Lars Berg was promoting active an internationalisation globally with mobile operations, where as Marianne Nivert had worked previously in Telia's network carrier business and emphasised the role of this business area, instead of the mobile business, as the new international focus area of the company.

businesses, but then diversified within this sector to include fixed-line, mobile and data services. In its investments in the growing Russian, Turkish and Central Asian markets the company's spearhead remained the mobile operator business<sup>68</sup>.

With regards to B2B operations the product strategy focused on international data and voice services. It could be argued that Sweden's position as a home market for a relatively large number of MNEs for a small country helped the company in this business area. During the most rapid internationalisation phase Telia was especially active with its international network carrier strategy, although since the telecom bust the approach became much more conservative, including significant write offs.

#### **10.4.2 Operation Strategy**

As Sweden's incumbent telco and the sole provider for the international telecommunications connections in its domestic market, Televerket/Telia was an active participant in interconnection negotiations and other cooperative activities within the industry. The first outward operations were transhuman exports; that is, consulting services provided to developing countries, and exporting goods and non-location-bound services, such as telephones and security systems.

Coming into the 1990s the company began active investments in network-based operations internationally. These were minority shares in joint ventures, companies and consortiums, with local partners and often with other international telcos. These investments included ownership shares from 5% to 33%<sup>69</sup>. Overall, the company's strategy was not to impose itself as a majority owner, although it wanted to have a say in the management of the

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<sup>68</sup> Although the development levels between international mobile markets across countries are evening, there still remain large differences. Thus, to have a common product strategy across all country organisations remains a challenge for an international telco such as TeliaSonera. This has resulted in some differences in the product strategy with regards to the home market (the Nordic and the Baltic countries) versus its other international operations.

<sup>69</sup> Telia's shares in Punwire Paging (49%) in India in 1995 and in Suntel (55%) in Sri Lanka in 1996 were exceptions of these types of investments in which the company's stake reached beyond 40%.

companies it invested in. As stated by Per O. Pedersen, President and CEO of Telia Overseas (Telia Overseas Annual Report 1997, pg. 5).

*Our goal is to be an active owner in every venture, which means that we take charge of our project companies' strategic, technical and financial development.*

Thus, Telia divested some of the smaller stakes in which it perceived that this role was not realised<sup>70</sup>. In Finland the company acquired a full-service telco, Telivo, but due to the strong market position of the incumbent operators in the country, never achieved a major market share until its merger with Sonera. In the Baltic States the company was engaged in many investments together with Telecom Finland/Sonera. This strategy helped to share risks and increased the possibility of winning the bid in the first place. However, the further international competition in the industry opened, the more challenging some of the cooperation activities between international telco partners became<sup>71</sup>.

Towards the later phases of the company's internationalisation process, the more it aimed at increasing its ownership share in existing investments and gaining full control of new acquisitions, as was the case with NetCom ASA in Norway. After the merger with Sonera, the merged company clearly stated its objective to achieve a control of many of its subsidiaries and associate companies. This strategy resulted in some conflicts and difficult negotiation processes, as some of the partners were not willing to sell and many host country politicians and media resented the idea of an international majority owner.

In its international/global mobile value-added services and other niche type of operations, which did not require significant infrastructure investments, the company entered international markets mostly with wholly-owned subsidiaries.

With regards to its B2B operations, during the rapid internationalisation phase in the 1990s the company established wholly-owned subsidiaries. These were located mostly in

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<sup>70</sup> For example, Telia sold its stake in Pannon GSM, in Hungary, as mentioned earlier.

<sup>71</sup> For example, Estonia would have been an optimal small and rapidly developing market to test new technologies and innovations, but the threat that a competitor could steal business ideas prevented Telia and Sonera from bringing in their latest knowledge into the JV (Högseius, 2002).



developed markets, such as Denmark, Norway, the UK and the US. During the most active phase of TIC's internationalisation, the company had offices in more than 20 countries globally, with a focus on Europe. Over the years and after some targeted acquisitions of local network companies, the subsidiaries in Denmark and Norway developed to full-service telcos

The company was also engaged in many global strategic alliances to support its B2B operations, such as Infonet, Unisource, and WorldPartners. Especially Unisource was a very significant operation for Telia, as it was one of the founders and a major driver in the alliance. However, these alliances were never able to achieve the high expectations behind their establishment, and their importance diminished remarkably over time and eventually they were terminated.

The merger between Telia and Sonera is a major test case for the whole industry on how successful a merger between two government-owned old incumbents can be and how this all fits with the predicted consolidation developments of the industry.

### **10.4.3 Market Strategy**

With regards to its market strategy the company started with consulting projects in developing countries in Africa, the Middle East and Asia. That is, the market strategy was very global and the role of psychic distance minimal. In fact, the psychic distance paradox was supported, as is natural for this type of business. Also the first investments in international telcos focused on countries with long psychic distance. Some of these investments were made in geographically close countries, such as the Baltics and Russia, but even in these cases it could be argued that the business distance was greater than it is for the typical early export markets of Swedish manufacturing companies: other Nordic countries, large developed European countries, and the US. In the most rapid phase of internationalisation, the psychic distance paradox was strongly supported in these types of investments, as most of them were made in Africa, Asia and Latin America. Most of these investments were also very successful. The company also made investments in close and/or

large developed countries, such as its entries into Finland, Denmark, Norway, the UK and the US, but these early operations were not very successful (or they were based mostly on B2B operations) and many of them were scaled down, terminated or divested at some later phase<sup>72</sup>.

Also with the exports of goods and non-location-bound services, there did not seem to be any clear pattern based on psychic distance, as the target markets varied greatly from close neighbouring countries (such as Norway) to large developed countries (such as the US, Germany) to more distant countries (such as Singapore, the Middle East, New Zealand). With the mobile services business the process was rapid, but mostly focused on developed mobile markets. That is, the development level of the market was a more important factor than geographical distance. In most parts, however, these operations focused on Europe.

During the de-internationalisation phase and after, the focus turned clearly on the home markets, which Telia defined to be the Nordic and Baltic countries, and more broadly the Baltic Sea region. In addition, TeliaSonera's strategy included investments in the rapidly growing mobile markets in Russia, Turkey, and Central Asia. With regards to these markets, it could be argued that Russia, especially the St. Petersburg region, fits very well with the home market definition. Turkey and Central Asia are already more distant, but still within Europe or very close to it (and these operations are also managed in cooperation with Turkcell)<sup>73</sup>. The only odd target market in the company's operations since the de-internationalisation is its presence in Spain. This can be explained by other factors, such as the harsh licence conditions, which would have made an exit even more expensive than further investments in the markets.

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<sup>72</sup> Televerket/Telia did consider Nordic countries as its home market, "a sphere of interest", for example, with regards to its Unisource activities, as stated by one of the interviewees. However, it took considerable time, effort and some failures before the company was able to reach a significant market position in any of these markets. Eventually the company made successful entries into some of these markets, such as the acquisition of NetCom ASA in Norway and the merger with Sonera in Finland.

<sup>73</sup> It is notable that the time zone in Turkey is the same as that of Finland. The Central Asian countries, as ex-Soviet Union autonomous republics, have historic links with Europe (as the name Eurasia indicates) and today cooperate with the EU and European countries in many areas,

With their B2B operations the company entered neighbouring and large developed markets, and large business centres, especially in Europe, but also with some offices in the US and in Asia's most important business centres<sup>74</sup>. This internationalisation pattern followed closely that of other business services reported in the literature. The pattern would also support theories on regionalisation, especially during the later phases of internationalisation when the focus turned solely on the European markets.

As with the case companies discussed earlier, the market strategy of the company was closely linked to its product strategy. In close markets the product strategy was based on a broad product portfolio, including fixed-line, mobile and data operations, whereas investments in more distant countries focused mostly on mobile operations only (and on consulting during the early phases of internationalisation). As with the previous case companies, it could be argued that although psychic distance seemed to play a role, especially the further the internationalisation process progressed, in many cases the psychic distance paradox also was supported, thus indicating that other factors were more significant

#### **10.4.4 Organisation Strategy**

As with the other case companies, after the domestic phase the company's organisation strategy was closest to an international strategy. That is, the consulting projects in developing countries and the goods and non-location-bound services that the company exported were manufactured in Sweden, developed originally for Swedish customers, and based on competences located in domestic markets. Also, the company's own brands, such as Swedtel, Teli, and TeleLarm were used at this phase of internationalisation. Moreover, the establishment of separate organisational entities, Swedtel and STI, fits well with the definition of an international strategy.

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<sup>74</sup> During the most active phase of TIC's internationalisation, the company had offices in more than 15 European countries, in the US, and in several Asian countries

As with Sonera, when the more active internationalisation phase began the strategy moved more towards a multidomestic one. The company invested in international telcos (FDIs), but almost all of these companies operated under their own independent management and had their own brands<sup>75</sup>. Telia, often through Swedtel, provided technical assistance and competences to these operations, but cooperation and integration across different country organisations was minimal. Also, knowledge flows were one-dimensional, from the home country to host countries.

With some of its mobile value-added service businesses and internet businesses, such as Speedy Tomato, the strategies resembled those of a global organisation strategy, as the products were developed for international/global markets from scratch with a standardised product development and branding strategy. Also, the strategies of Telia's B2B business, and especially TIC, included many characteristics of a global organisation strategy, with centralised administration, operations around the world, and standardised products and branding. This is inline with the strategies of many other business services. It is notable that neither of these operations was very successful for Telia. This could be related to the challenges of trying to operate two very different types of organisation strategies within one multinational company: a multidomestic and global strategy, as already discussed in the Sonera section.

After the company merged with Sonera, the merged company adopted many characteristics of a transnational strategy. Although the headquarters for the whole company and most key functions were still located in Stockholm, the HQ for international operations, especially for Eurasia, was located in Finland. Also, the first Chairman of the Board was a Finn, as was the Deputy CEO, and later also the CFO. In addition, in many areas such as

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<sup>75</sup> In Norway the company started to operate under the name Telia Norge (Norway), but after the failed Telenor merger, and following acquisition of NetCom, the company still operates under the NetCom brand. In Finland the company renamed Telivo to Telia Finland and operated with this name until the merger with Sonera, after which Sonera has been the brand name in Finland. In addition to B2B operations perhaps Denmark is the only other country than Sweden in which the company has operated under Telia's brand name for a long period of time.

product development, the organisation structures in the Nordic countries followed functional and product lines, rather than were based purely on country organisations. These types of economies of scale advantages were sought especially in the mobile business operations. When the company owns the majority of each country organisation, this type of strategy becomes more feasible, and thus there can be seen a clear link between an operation strategy and an organisation strategy. However, as discussed in the Appendix 8, a few years after the merger was finalised, many Finnish top level managers have left the company, the first Finnish Chairman left because of conflicts with the Swedish CEO, and the relative ownership share of the Swedish Government grew after the merger was finalised, as the result of the Finnish Government divesting more shares since the merger. Also, the brand names used were still mostly local rather than standardised. It remains to be seen if the company is able to follow a transnational strategy in the future, or if it falls back towards a more multinational one or a centralised international one.

### ***10.5 Analysis of the Internationalisation Strategies of Telstra***

The internationalisation strategies of Telstra are analysed in the following subsections and summarised in Appendix 9 d. These analyses are based on the descriptive case data of the company's internationalisation milestones (see Appendix 9 for the case description, Appendix 9 b for 'History of Telstra and the Australian Telecommunications Sector', and Appendix 9 c for 'Telstra's most important international activities in chronological order').

#### **10.5.1 Product Strategy**

When analysing its international product strategy it can be seen that the company started its outward internationalisation with consulting projects in developing countries. The largest of these projects, such as Vietnam and Saudi-Arabia, were run as long-term management contracts. Soon, the company also invested in several IT-technology, software and/or IT-services companies, which also targeted international markets. None of these

activities included building and operating networks that were owned by Telstra itself; that is, they were not asset-based/location-bound services. Rather, it could be argued that the product strategies internationally were focused on selling know-how (as a soft-service), goods and/or hard-services, and some services that were delivered online<sup>76</sup>.

It was only later in the process when the company started to operate in overseas markets based on telecommunications networks and systems it owned or partially-owned. The first of these entries included paging services in Poland, CT2 wireless network in Hong Kong, mobile operators in Sri Lanka and India, and two network operators in Indonesia.

With regards to niche vs. integrated product strategies, it could be argued that most of the early entries were focused in a way that there was one product or product-group that was dominant, rather than being fully-integrated telephone services. Some of the consulting projects did include management of the whole telephone network, but even in this case the product from Telstra's point of view was consulting/know-how, rather than the network/telephone service itself, as already discussed. However, the product strategy was not very coordinated across markets, and in no way global. Rather the entries were very opportunistic and the products varied across target markets significantly.

Later, during the most rapid growth phase, the company aimed to focus more on mobile communications (in Asia), although the strategy was not very successful, as only a few markets were entered. Most attempts to integrate vertically to new services (for example, some of the investments in software companies), or enter international market with MVNO-type of operations, especially in China, were not very successful either.

On the other hand, already during the most rapid growth phase in the industry, and especially after it, the company tried to move more towards horizontally integrated and diversified product strategies, including also diversification into entertainment and

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<sup>76</sup> As mentioned, many of these goods/hard-service exports were by the company's subsidiaries and associated companies, rather than the company itself directly.

information services<sup>77</sup>. This is demonstrated well in the comment by Telstra's CEO Ziggy Switkowski in 2002: *"It is timely now for Telstra to adjust the organisational framework to ensure we execute successfully on our integrated full service strategy."* (Australian Associated Press Financial News Wire, 29 Nov 2002).

In their B2B strategies the company followed niche-type global strategy by offering standardised data services to MNE customers in North America, Europe and Asia-Pacific (focusing on selling their Asia-Pacific network).

### **10.5.2 Operation Strategy**

With regards to its international (outward) operation strategy the company started with non-committed operation modes. That is, the consulting/management contract projects were based on transhuman exports.

The first committed international operation modes were investments in international JVs and in Australian-based companies (most of them JVs as well) which targeted international markets. Some reasons for this type of strategy were limited resources and objectives to grow rapidly, but in many cases also a result of host government regulations<sup>78</sup>. At the later phases of the internationalisation process the company increased its ownership shares and/or directly invested in some wholly owned companies, such as Hong Kong CSL, TelstraClear in New Zealand, and PSINet Group in the UK, and its Pacific Access directory business (later Sensis).

In their B2B operations, the company established branch offices and/or wholly owned subsidiaries relatively rapidly in many key markets. Telstra was also engaged in two multilateral strategic alliances with other incumbent telcos, but these were not very successful and were later terminated.

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<sup>77</sup> For example, in 2002 Ted Pretty, group managing director of Telstra Retail and chairman of Pacific Access, Telstra's directory business, argued that convergence between media and telecommunications would influence significantly Telstra's strategy (The Age, 31 May 2002). This was also reflected in Telstra's organisation structure, as one of the divisions was named Telstra Convergent (Telstra Annual Report 2005).

<sup>78</sup> The factors contributing to international strategies will be discussed in more depth in Chapter 11.

### 10.5.3 Market Strategy

When the market strategies of Telstra are analysed it can be seen that most of the early entries have been in countries with long psychic distance (for example, the development aid projects in Africa, Middle East and Asia, but also the more commercial operations after that in Vietnam, Saudi-Arabia, Laos, Thailand, Pakistan, Cambodia, Poland, China, Hong Kong, India, Kazakhstan, and Russia)<sup>79</sup>. This issue was emphasised during the rapid phase of internationalisation. When disaggregating the psychic distance factor, it seems that the role of geographical distance has been relatively more significant in decisions in respect of target markets, as the focus was mostly on the Asia-Pacific region, whereas cultural difference was not seen as a very important factor. There were some indications, however, that business distance (business practices, policies/regulation) was in many cases preventing entries to some markets, such as the Philippines, Thailand, and China. Surprisingly, the company faced some significant challenges in its entry to countries with small psychic distance; for example, in its operations in New Zealand, as will be discussed in more depth in the next chapter.

The further internationalisation proceeded the focus increased on the geographically close Asia-Pacific region, resulting in some divestments of their European operations, thus supporting the theories on regionalisation<sup>80</sup>. During these later phases the target markets consisted of relatively more developed markets, such as Japan and Singapore, although China still remained as the most important individual target market in the company's plans.

After the rapid growth phase, the company's international strategy was revised, and in many businesses it retreated back to a few selected markets, and even focused back on its domestic markets.

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<sup>79</sup> Based on Fletcher and Bohn (1998) the countries with small psychic distance to Australia are US (0.1), UK (0.6), Canada (0.6), New Zealand (0.7), Switzerland (1.5), Germany (1.7) and Ireland (1.7), whereas the scores for countries such as India (9.7), Indonesia (18.7), and Hong Kong (20.5) are significantly higher.

<sup>80</sup> For example, in 2004 Telstra International changed its name to Telstra Asia, a good indication of their increased emphasis on the region.



As already mentioned, with their B2B operations the company entered neighbouring and large developed markets, and large business centres in North America, Europe and Asia-Pacific, following a global strategy. Also, for some of their other businesses, such as directory and IT-technology, the markets were predominantly developed countries, as they mostly targeted B2B customers.

#### **10.5.4 Organisation Strategy**

With regards to their organisation strategy the company started (after the long domestic period) with a strategy that could be best described as international. It did not have any significant investment overseas (outside of its investments in cable systems), rather it exported its products (transhuman exports, goods/services) and the products sold were heavily based on the competences developed in their domestic market. The main organisation responsible for international operations was a relatively small unit separate from other businesses ((TA(I), later Telstra International)<sup>81</sup>.

When the first significant investments occurred, it could be argued that the company's organisation strategy moved more towards a multidomestic one; for example, each country organisation maintained its own brand and management, and there were significant differences in product strategies between the different country markets.

During the rapid internationalisation phase Telstra made some advances towards a transnational strategy, for example, establishing the HQ of its international operations in Hong Kong rather than in Australia. It also aimed at higher controlling stakes in its overseas investments/JVs (with only a modest success), as this would have made it easier to find synergies between different country organisations. However, knowledge transfer from other markets to home country was very limited, although some opportunities towards this

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<sup>81</sup> It needs to be noted that prior the merger of OTC and AOTC, OTC's businesses were focused on international markets, although still mostly on domestic corporate customers, and could have been developed to a pure global-type of organisation strategy.

direction were identified<sup>82</sup>. Also, with regards to the composition of its top management team and board the company remained very Australian. Thus, it could be argued that at most, the international organisation strategy of the company was multidomestic, recently maybe even coming back towards an international organisation, with an emphasis on home markets.

With regards to its B2B operations the company had a mixture between international and global strategy. This was also the case with some of its subsidiaries/JVs such as QPSX Communications, Telecom Technologies and Sausage Software. It could be argued that due to very different organisation strategies (that is, multidomestic vs. global) the company struggled to find synergies with these businesses and companies.

## **10.6 Summary**

In this chapter the case data was illustrated and within-case analyses discussed. The internationalisation strategies were analysed per each sub-strategy of product, operation, market and organisation strategy (and the internationalisation milestones were described in Appendices 6, 7, 8 and 9).

In the next chapter the data is analysed using a cross-case analysis. This includes also a more in depth analysis of the factors influencing the internationalisation strategies of the case companies.

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<sup>82</sup> For example, it was acknowledged that CSL, as a challenger operator in Hong Kong, was ahead in some technological developments, and mobile operators in the developing countries, on the other hand, had some very innovative products due to differences in the markets' characteristics.

# **11 Discussion and Cross-case Analysis**

## ***11.1 Introduction***

In this chapter the findings from the case studies will be discussed further using a cross-case analysis. The propositions developed in Chapter 8 will be used as a framework for this analysis. The differences and similarities of the internationalisation strategies of the case companies when compared to traditional internationalisation theories and those on the internationalisation of services are discussed. The international product, operation, market and organisation strategies of the case companies are also summarised and the overall pattern described in Appendices 12 a-d (cross-case analyses of internationalisation strategies of the case companies).

It will be demonstrated that Propositions 1B, 2B, 2E, 2F, 3A and 4A are supported, whereas Propositions 1A, 2A, and 2D were rejected. Analysis of other propositions provided mixed results. Furthermore, some new findings are also identified and, differences between the case companies are acknowledged.

## ***11.2 Cross-case Analysis: Overview of the Internationalisation Strategies***

All of the companies have had international inward and cooperation activities almost since their establishment; this is true for all players in the telecommunications industry. That is, telcos were engaged in multilateral and bilateral cooperation, for example, to set up interconnection prices, and to build international connections, such as submarine cables and satellite systems, in order to serve their domestic customers' needs to be connected internationally. It is discussed later that these activities have had some influence on their internationalisation processes. However, the focus of the analysis will be on international outward activities, that is, activities targeting overseas customers, as that is perceived to be the most challenging part of the internationalisation of a firm.

The findings reveal four separate and identifiable phases in which the case companies have internationalised. These are: *the Learning Phase, the Opportunistic Phase, the De-internationalisation Phase, and the Maturation Phase*. These phases will be discussed throughout the analysis of each sub-strategy, and then summarised in more detail in section 11.5.

### **11.2.1 Product Strategies**

Proposition 1 A, which stated that *telcos enter international markets with physical networks (system sales) from the beginning of their internationalisation*, **was not supported**, whereas Proposition 1 B, which focused on *SMOPEC telcos adapting their product strategies internationally by starting to sell know-how instead of the integrated telecommunications service products that they operate/sell domestically*, **was supported**.

When the case companies entered international markets with outward operations all of them began with consulting and/or management contract types of arrangements, mostly aid projects in developing countries but included also network building projects in emerging markets and in some developed countries.

This was an important finding, as none of these companies had operated as consultants in domestic markets. That is, they followed different product strategies from their domestic markets with their very first international operations. They adapted the product to be sold from domestic system sales (location-bound/asset-based service) to an international consulting service (know-how).

The case companies also had some small scale entries into many countries by exporting goods (for example, IT-technology, telephones) and/or hard-service/object-based services/online services (for example, IT-services and software). These included Sonera's IT-services in Russia (and later also directories in the Baltic States and Russia); Telia's many exporting activities in telecommunications equipment, IT-technology, and services; Telstra's

several activities in the IT-technology and services, and entry to the US with its directory business; and also SingTel was engaged in some IT services and telecommunications equipment sales internationally. Many of these operations were organised by domestic subsidiaries of the case companies. However, the further the level of internationalisation progressed, each case company's international product strategy started to resemble their domestic activities. That is, investments were mostly in telecommunications networks (fixed and/or data and/or mobile; that is, system sales).

Thus, it can be argued that with regards to their product strategy, the case companies adapted their products and internationalised incrementally. It could also be argued that this strategy helped them to overcome some of the limitations in internationalisation that their traditional telco product, system sales, provided for their early internationalisation.

Proposition 1 C: *Due to their limited resources SMOPEC telcos enter international markets with (global) niche product strategies (vs. integrated networks), **was only partially supported.***

As discussed above, the case companies started with consulting operations and by exporting goods and non-location bound services. Also, most of the first international investments were in single businesses, rather than in fully-integrated telcos. Mobile communications especially was a spearhead in many cases for all case companies during their most rapid internationalisation phase. During the rapid growth phase the case companies also established/acquired niche type of companies that were aimed at global markets (for example, Sonera Zed and SmartTrust; Speedy Tomato by Telia; and Sausage Software and Solution 6 by Telstra). However, in the early phases of the internationalisation processes, these opportunistic strategies resulted in very diversified product strategies on a global scale, although often focused on an individual target market level. For example, investments included cable TV companies, radio stations, paging operators, and directory services. Many of these very opportunistic activities were not very successful strategies to internationalise.

The most successful of these types of single business expansions were the investments in mobile operators. Even in this case it needs to be noted that international MVNO types of operations have not been successful yet, as there seemed to be synergies in owning the network and being a mobile service provider, thus creating barriers to companies trying to base their operations on a service layer only. Overall, it could be argued that these focused strategies did not fit well with the home market strategies of the case companies (as will be discussed further in the section on organisation strategy). It seems that the further time lapsed strategies in international markets resembled more those of the domestic markets; that is, being more integrated by bundling different telco services together<sup>83</sup>. This was opposite to many market predictions of niche/'pure play' operators being the clear winners in the industry. Comments by some of the interviewees in Table 11.1 below illustrate this point.

**Table 11-1 Comments discussing the development from niche to bundled product strategies over time**

Telstra	You can't be all things to all men in every single market around the world, you just cannot. No one is big enough.	On the challenges of internationalising in a capital-intensive industry, supporting niche type of strategies in internationalisation.
Sonera	In the mobile communications network operators and service providers (MVNOs) will be completely separate entities. It will be more and more difficult to try to be both. When thinking about the consolidation process, you need to think how network operators possibly consolidate, and how service providers will consolidate, and they most probably will have two very different mechanisms. I think that there will be room for very fragmented (industry) structure, with many new (business models).	On the challenges of internationalising in a capital-intensive industry and the role that MVNOs were expected to have in the industry.
Sonera	The establishment of Zed was a very significant phase in the history of Sonera's internationalisation. We are talking about tens of millions of Euros. Target markets are mostly international ones, such as the Philippines, Malaysia, Italy, the UK, Germany, and Finland. The business area is mobile content, a kind of service business on top of networks.	About the emergence of niche types of businesses on top of the mobile network layer during the rapid internationalisation phase.
SingTel	Like Equant (a data service provider). They are not big, but they are everywhere. But they are focused on a single product. It is just more data/internet global business. Vodafone and Hutchison are focusing purely on mobile and Equant on data. But these [others] (referring to traditional incumbent telcos) have a wider mix.	On the emergence of focused companies in the industry, but emphasising the fact that different strategies prevail.
Sonera	Zed had just one problem. It tried to sell [to other telcos] without a share ownership [in them], and telcos perceive each other's services as competitors. It is very difficult to sell to competing telcos, even if you have developed very good services. But if you are a shareholder in those telcos, even just a minority shareholder, then this barrier to buying is lower. Thus, Zed turned out to be very difficult to manage under Sonera's ownership, which was the reason that they separated it totally from the mother company, and have now divested it.	About challenges of managing a global niche type of business on top of the mobile network layer, especially as the operations were very different from the domestic operations and due to the rising conflicts of interests with new potential competitors.
SingTel	[In terms of bundling] I think India (SingTel's JV in India) does that very well. Some years ago I remember, two or three years ago, the market was in favour of single focus strategy ('pure play') and the philosophy behind that is easy to understand. If you only do one business you are able to get good management, good people and they're not distracted, and they know the business model very well. They are focused and they will do well. Today's philosophy is different. Now you should not be just doing one thing. You put the things together. You sell fixed [line] and mobile together and you can do it successfully. So customers see value and not only that - you get a lock in. Because [customers] cannot return half of your service and keep the other half. In India, at first [it was] mobile, then [SingTel's JV] had to start providing fixed line. In Australia, now [Optus] is actively growing the fixed line business. Because if you don't then your competitor will do it. It is the convergence, basically.	On the synergies across business areas and development towards more integrated product strategy and convergence also in international operations.

<sup>83</sup> It needs to be noted that even during the maturation phase the case companies were engaged in some successful focused operations in mobile communications in some selected growth markets, such as TeliaSonera in Eurasia and SingTel in some specific Asian countries, although overall the strategy moved more towards integrated and bundled services.

With regards to their B2B operations the case companies followed global niche strategies, by providing mostly data services to MNEs internationally under standardised products and brands (with the early focus on providing services to domestic MNEs). These operations included some very large investments in data networks, such as SingTel and Telstra in the Asia-Pacific region and Telia's Viking Network in Europe and the US. B2B operations will be discussed more in section 11.2.3 on market strategies and 11.5. on the differences between the case companies.

### 11.2.2 Operation Strategies

Proposition 2 A, which stated that *telcos start their internationalisation from the beginning with direct investment modes and do this very rapidly*, **was not supported**, and Proposition 2 B, which claimed that *instead of investing in fully owned subsidiaries, SMOPEC telcos enter international markets (predominantly) with minority JVs*, **was strongly supported**.

Proposition 2A is closely linked to propositions 1A and B; that is, product and operation strategies were closely integrated. Consulting was (mostly) based on transhuman exports and the companies also exported goods and some hard-services/object-based services/online services as the very first operation mode. When the companies started with more committed operation modes in telecommunications networks; that is, location-bound/asset-based services, most of the early investments were minority JVs. This was an expected model, especially for SMOPEC telcos in a capital-intensive industry. Unlike many large telcos, the case companies seemed to be relatively compliant as minority owners in these JVs. All of them emphasised the importance of owning a significant minority of a JV and being the largest telco owner, but in most cases the ownership shares of 20 - 40 % were perceived to be sufficient. It could be argued that this willingness to work together with local partners instead of aiming actively to gain a dominant role may have contributed to the attractiveness

of these companies as JV partners<sup>84</sup>. These developments were also reinforced by comments from the interviewees (and newspaper interviews, when indicated), as summarised in Table 11.2 below.

**Table 11-2 Comments with regards to the first operations being non-committed and/or minority JVs**

Telia	The Swedes have projects, aid projects. The investments in those countries were always owned by the local government.	About the first developing aid projects.
Telstra	They were delivered like tolling charges. That's exactly how the earnings under the contract were delivered but they were capped, they were fixed. So you got no equity interest in the value that was being created.	About the first management contracts / consulting projects.
Sonera	There are two possibilities to be involved successfully in a company. One is, naturally, to own it and to dictate what will be done, and to collect the benefits. But if you do not have enough 'muscles and money', then you have to be a minority partner, which the majority (partner) needs to like. The majority partner needs to like [the minority partner], because it brings benefits to [the company]. And then [the minority partner] needs to bring something new all the time.	
Sonera	It was perhaps typical of that time period that we entered only into minority ownerships in these [organisations]. We did not even try to have control. The [host] government owned the majority and we invested in some minority shares and brought in our knowledge.	
Sonera	My preferred view was that it has to be minority ownerships. That is, to bring as many mobile subscribers to Sonera's sphere of influence as possible. They can be 10%, 30%, or 50% ownership shares, but they are in our sphere of influence. And we need to take care that there are no other service and technology providers than us as shareholders.	
Telia	We had to have a partner so that we didn't have to take 100% ownership. We took the minority stake but we had to be the driver of the project.	
Telia	We were looking for local partners, with minority holding by Telia Overseas. The ownership shares were 20%-30%-35%, although later we noticed that 20% is not good enough. Sri Lanka was the only majority one.	

However, it needs to be noted that in spite of a minority ownership, the case companies emphasised the need to have a sufficient level of control (to have a say); that is, being the sole telco investor or at least the major telco investor. In the cases where there were many telco owners, conflicts later occurred and in the long-run, in many cases one of them bought the others' shares. The further the internationalisation proceeded, the more the case companies were aiming for majority ownerships/control of their international investments<sup>85</sup>.

Table 11.3 below includes supporting comments to that effect.

**Table 11-3 Comments discussing the balance between a minority ownership and control**

SingTel	We have a certain management rule in the company. Quite often we take the number two, the chief operating officer, sometime we have it like VP marketing, VP technical or VP operations in each of these companies. So we have a better integration with the company. There's a bridge, there is a link, and this is how we know what the company needs. So we don't impose on the company but we want to contribute.	About not requiring a majority but wanting to have a sufficient control.
Telstra	We have various investment guidelines around. One of the key guidelines we had was that if we were going to take a large stake in a foreign operator we had to have some form of operational control. That didn't necessarily have to translate into ownership control or board, but we had to have enough influence over the organisation because in my view unless you could show that you could influence the operating decisions in the organisation, how could you ever justify the argument that you were able to find synergies from the business? Unless you are an influential decision maker you won't get it, you've got no guarantee you're going to get the synergies. With all the cultural differences and all the other implications, it's not enough.	About the need to have sufficient control

<sup>84</sup> Among the case companies, Telstra was perhaps the least willing to own a minority share, especially the further the internationalisation proceeded. Also Telia's (and later TeliaSonera's) strategy moved towards more controlled modes over time. This issue will be discussed more in section 11.5 on differences between the case companies.

<sup>85</sup> Some of the conflicts reported in the case studies were partly related to this issue. For example, TeliaSonera's increasing influence caused resistance in some countries, as discussed in the case study section.



Sonera	When we were there with Telia, being competitors and both as owners in those companies with similar ownership shares, it was a very difficult situation. We did not want to take [new services] there and take the risk that the competitor will then steal [the ideas] and use them against us in our domestic market.	About Sonera's JVs in the Baltic States with Telia
Sonera	Originally we entered (into the JVs) in areas where we did not compete against each other yet. Telia was not in Finland and we were not in Sweden, so we perceived it to be a neutral alliance.	About the change in the competitive situation and its influence on partnerships.
Sonera	[Pannon GSM], in which there were several telcos [as owners], turned up to be an unsuccessful model, as there rose arguments between the owners about who could export the services they had developed. It does not work. [Ownership] has now quietly transferred to Norwegians, the whole Hungarian Pannon GSM.	About the challenges when there are several telco owners.
Telstra	We would invariably look for someone other than a local telco partner. Otherwise it's sort of difficult to justify what you bring to the equation.	About the challenges when there are several telco owners.
Telia	You need to be among the largest owners, owning 30-40%. You must have a certain stake. To sell you need to have control. Also, there is a 'One King' problem, if there are several telcos [as owners]. You need to have control large enough and management agreement, to have your own CEO, COO, and or CFO.	About the challenges when there are several telcoowners.
SingTel	Choose a partner who shares your philosophy, has the patience to develop the business for long-term gains the same way that you do, who understands your strengths and your weaknesses and who's willing to compensate for your weaknesses. If you have a mismatch in any of these areas, then you are in for a hard time. In addition to "fighting" your competitors, you'll have in-fighting within the consortium. Then it's very difficult for the company to move quickly. (Allen Lew, Chief Operating Officer of STI, in Business Times Singapore, 20 Aug 1997)	The importance of sharing the same vision with your partners/ other owners

In summary, it could be argued that the overall process with regards to operation strategies was incremental, rather than entering rapidly with committed modes. This strategy followed more of the processes suggested by the traditional internationalisation theories on manufacturing companies or hard-services: a finding that could provide an example of an alternative early phase entry strategy for network industry companies from SMOPECs, when compared to more aggressive international entries available for larger service MNEs in these types of industries<sup>86</sup>.

As for their B2B operations, the case companies established offices and/or wholly-owned subsidiaries relatively rapidly in developed countries, both close markets and in the leading business centres globally, although later focused more on regional strategies.

Proposition 2 C stated that *SMOPEC telcos internationalise through strategic alliances (with other telcos) and the role of strategic alliances is especially important for their internationalisation (relative to telcos from large countries), was supported only partially*; Proposition 2 D: *The role of strategic alliances for SMOPEC telcos will increase*

<sup>86</sup> It needs to be noted here, though, that in many cases one of the (major) reasons for adapted product and operation strategies were the host country regulations, as will be discussed more in section 11.3.5. However, even if this is the case it seems that for SMOPEC telcos this type of incremental internationalisation fits better with their overall strategy than for large country telcos with their more integrated organisation strategies, as also discussed further in the cross-analysis section of the organisation strategies of the case companies.

towards the later phases of their internationalisation processes, **was not supported**; and, respectively, Proposition 2 E: *The role of strategic alliances for SMOPEC telcos will decrease towards the later phases of their internationalisation processes* **was strongly supported**.

Just like JVs, strategic alliances provided the means for SMOPEC telcos to internationalise rapidly in a capital-intensive industry, also allowing them means to compete with the largest telcos in the industry. However, it needs to be emphasised that the role of (non-equity) multilateral alliances diminished significantly over the process of internationalisation. It seems that even for telcos from SMOPECs the challenges in entering into and maintaining an alliance with other telcos in a situation in which competition is rapidly globalising became greater than the possible benefits and synergies from the alliance. This issue was emphasised by several of the interviewees, as illustrated in Table 11.4 below.

**Table 11-4 Comments on the role of strategic alliances and their diminishing importance over time**

Telia	[Unisource] was driven by the need to give service to multinational customers. The UK had deregulated earlier than Sweden and that meant that British Telecom was under a sort of pressure in Britain and they were very active in trying to do something out their own [market]. So they were focussing on multinational companies and big customers outside Britain. [As Sweden] was deregulated, they were able to come here and offer their services and compete with Telia. For the big banks, for Electrolux or for Ericsson and so on. We sat down [with the Dutch PTT] and they said, let's do something together. Holland is a very externally oriented country depending on [foreign] trade and Sweden [is] feeling the pressure from the new competition. And so they said, let's start this corporation. Together we will be able to offer multinational companies a better service than individually, and so we can compete with, at that time, British Telecom. And so they said, let's find another company that could help us be a little bigger. So they found Swisscom and convinced them to come on board as well. You can see that all three countries are roughly, well medium sized countries, but with a very international industry and their overall economy are very internationally oriented. So we all had the same needs. This was driven by commercial reasons. Really to compete and to be able to take on our multinational domestic customers. To be able to follow [them] out in the world. This of course led to expansion, because three countries were not enough, so then this alliance grew.	About an alliance as a mean for SMOPEC telcos to compete against the largest players in the industry. (Unisource vs. British Telecom)
Telstra	We also have an interest in a company called Infonet, which specialises in international managed services and we tended to use Infonet to do things for us, but that was strictly on a contractual basis. But we did have [a small equity share], which in fact we just sold a couple of days ago because it was concluded that .... With the fallout of the technology [boom]. What you found was a lot of networks had been built around, and had been funded with the debt and they were basically all being floated for next to nothing. The [other international alliances] were sort of nothing more than a best endeavours kind of an arrangement and you get nothing out of best endeavours. You've got to put real money up before you get any real benefits.	About Infonet alliance and overall challenges with regards to international non-equity alliances. Also about the role of financial markets
Telia	But we were competing at that time because our network people were building that network at the same time as they were working with Unisource. So they were competing with Unisource. That's one reason why it didn't [work out]. So it was dismantled	Conflicts with the company's own operations competing with Unisource.
Telia	And it was too early because of the regulations. The regulations were so different in the different countries. Like we had a deregulated market so we had to sell perhaps for a low price. And Telefonica, they couldn't give, even if they wanted, they couldn't give Unisource a good price taking traffic in and out of Spain because then they had to give the same price to all the customers. In Sweden they were very low prices because we couldn't charge at higher price, just to compensate because they were expensive in Spain. We had to give them the price that was on the open market. It was too early. Because if the market had been deregulated in the same way in all countries it would have been a different story. So then Unisource was taken down and sold off.	On the challenges with regards to Unisource, for example, caused by regulatory differences between different countries.
Sonera	In the end of 1980s and early 1990s there was a significant trend for telcos to enter alliances. It had an influence on many operations. However, now there is no belief in contract-based alliances. Also the ones with some equity arrangements have been terminated.	About the change in the sentiment with regards to contract-based alliances.

Proposition 2 F: *SMOPEC telcos have faced significant de-internationalisation phases during their internationalisation processes, was strongly supported.*

After the first rapid and opportunistic internationalisation phases, the case companies divested many of their (non-core) operations and retreated from many distant markets focusing more on home/regional markets. This issue will be discussed further in section 11.4 on different phases in the internationalisation process.

### **11.2.3 Market Strategies**

Proposition 3 A: *The role of psychic distance is less significant in the internationalisation of SMOPEC telcos than traditional theories would suggest, and the psychic distance paradox was strongly supported.*

As already mentioned earlier, all of the case companies started their internationalisation with developing aid/consulting projects in (very) distant markets: SingTel had projects in the Middle East, Asia and even in Latin America; Sonera had developing aid projects in Africa and Asia, but also network building projects in Russia and Turkey; Telia in Africa, Asia, the Middle East, and in Latin America; and Telstra in Africa, Asia-Pacific and the Middle East.

Also, when the companies started with investments in the telecommunications networks/telcos internationally, the high initial capital investments that were required in telecommunications networks created additional challenges to the case study companies, as was predicted. This varied from the strategies of the largest national telcos in the industry and of the more specialised companies such as Vodafone in mobile communications and Equant in data communications. The case companies were not able to enter large markets rapidly, at least not several large markets simultaneously. For SMOPEC telcos entries to large developed markets seemed to be rare exceptions and most of these few entries resulted in de-

internationalisation and/or divestment decisions at a later phase of the process<sup>87</sup>. Also, many of their entries and/or failed entries into neighbouring countries were not deemed to be successful, such as SingTel's activities in Hong Kong and Malaysia; Sonera's operations in Sweden; Telia's failed merger with Telenor in Norway, and relatively modest early operations in Denmark and Finland; and Telstra's challenges in entering New Zealand with a full portfolio of products. Table 11.5 below provides supporting comments.

**Table 11-5 Comments on how the companies targeted global markets & faced challenges in close markets**

Sonera	With mobile technology we were in many countries, except in Western Europe, as we were not able to enter these markets due to auction and/or bidding processes.	About entering distant, instead of close countries.
Telia	Telia Overseas was focusing on outside of Europe to capitalise on its mobile knowhow. Western [markets] were too expensive. Eastern were gone.	About entering distant markets.
Telia	So that was a long tradition in Telia. To send people to strange places to operate telecom networks.	About entering distant markets.
Telstra	I think culture's an important thing but I think you can overcome that by getting the right resources on the ground. And in many instances a local partner does bring a lot of that.	About the means to tackle with cultural distance.
Sonera	That was the main message when the road show was on – when Sonera was listed. That is, in the mobile communications our internationalisation strategy is to target the whole world.	About target markets being global
Sonera	Telecommunications is affiliated with [political] power structures. Finland is harmless – non-threatening. In Western countries [the concept of] 'tasteless and odourless' does not work. We should have thought better why we were successful. Geographical distance is not meaningful. The development level of the target market is much more important.	About the competitive advantage being relatively better when targeting countries with lower development levels, independent of their distance from the home markets.
Telia	Telia never entered the US market. And the mobile in Germany, there was a small service provider, [but] it was bought by one of the other big service providers.	About Telia never having a strong presence in large Western countries (countries often the target markets for their manufacturing companies)
Telia	Timing was too late [with regards to] Europe, or too large investments [were expected].	About Telia's challenges in Europe
Sonera	In Europe we were not very successful, as we were not able to enter into operations in which the initial market position had been strong.	About Sonera's challenges in Europe
Telstra	And that's probably the one country where regulation has proved quite a serious barrier to us really growing our interest in New Zealand.	About Telstra's challenges in the neighbouring New Zealand
Sonera	In Sweden we caused a catastrophe. Our costs were much higher than the revenues.	About Sonera's challenges in the neighbouring Sweden.
Telia	Telia never had a strong presence in Finland.	About Telia's relatively modest position in its neighbouring Finland.
SingTel	We are in almost every [country] in South East Asia except Malaysia	About SingTel being very active in South East Asia, except in its closest neighbor Malaysia.
SingTel	The other reason of course, I think is political. When you look for an investor to take a hare in your company, the immediate neighbours are usually not your best choice because you get criticism from your people, from your public.	About the political challenges when investors come from neighboring countries.
Telia	It was a great relief that the Telia Telenor merger did not realise. There was far too much prestige involved, and it was essentially a political issue. Telia's future lies not in an old airport outside Oslo. (Tony Hagström, ex-Director General of Televerket, in Computer Sweden, 19 <sup>th</sup> June 2002 (in Swedish))	About the failed merger between Telia and Telenor, the incumbent telcos of the two neighbouring countries.

Proposition 3 B stating that: *Due to regionalisation developments and relatively large risks involved in entering global markets, SMOPEC telcos follow regional market strategies, was only partially supported.*

<sup>87</sup> With regards to their B2B operations the case was different, as is discussed elsewhere in this chapter.

After the first very rapid and irregular internationalisation phases, discussed above, during which the case companies entered very distant target markets and implemented a global market strategy, and after the brief but intensive de-internationalisation phase, the process moved more towards a traditional one. At this phase, the market strategies became clearly regional for all of the case companies. They had divested their operations in other continents and focused on their domestic continent, or even more specifically defined home markets<sup>88</sup>. It seems that although other factors often over rode the psychic distance, geographical distance especially became a factor, in particular when over time the need to integrate operations closer together increased. Active management of the overseas investments resulted in people travelling between the home and host countries frequently, and consequently regionalisation seemed to become a more and more a feasible strategy. Table 11.6 below includes comments from both SingTel and Telia managers.

**Table 11-6 Comments discussing reasons why the focus moved from a global to regional**

Telia	Basically it was a very good deal. It was a good investment and by the end of the day we came out with a good profit, but the travelling, the in between ...there was so much time spent on	On the operations in Brazil.
Telia	Of course it's easier on the other side of the Baltic Sea. You have a 40 minute flight. It's easier to deal with that than Uganda of course.	About the role of geographical distance. That is, although not the most important factor, it does have an influence on internationalisation strategies.
SingTel	[W]hy we actually wanted to exit Europe and go focus in Asia/Pacific is that after the first phase actually we realised that f [the investment] is too small, it's not worth it. Because we spent the same amount of effort. If it is too far it's not worth it because we have a limited number of management staff and the travelling... For example, I went to Washington for some time twice a month and [when] you go to Washington twice a month, it's just totally disorienting. You're tired you know. So distance actually counts. And of course time difference and all that. But we can work with time difference, plus, minus [a few hours]. Australia and India we are very comfortable with. We can use a lot of our company's resources. [If] anyone wants some help we can send somebody. If anyone is not around, another guy can stand by and take over. We also send experts across to [them] when they need some kind of expert assistance.	About the challenges in travelling across regions combined with the limited number of management staff available. Also about the importance of time difference.
SingTel	So we began to have a pattern, what we want to invest in, which means we would focus only regional rather than global [markets] and we also focus on certain products, not on everything.	About moving focus from global to regional markets.

Proposition 3 C which claimed that: *With their B2B operations SMOPEC telcos enter the largest developed markets rapidly, was also partially supported.*

In regards to their B2B operations the case companies followed internationalisation patterns comparable to the ones reported in earlier studies of B2B-services (Roberts, 1998,

<sup>88</sup> For Telia the home markets were the Nordic countries and the Baltic Sea region. Later with TeliaSonera, some emerging markets in the Eastern Europe and Eurasia were also included. For Telstra, it could be argued, most of the operations focused on domestic markets, although it still remained active internationally in B2B operations and in a few selected markets (New Zealand and CSL in Hong Kong).

Aharoni, 2000). That is, they established offices in other developed countries, in neighbouring countries with both small cultural and geographical distance, but especially in the leading markets in their continent and/or around the world. For instance, they all established offices in London and other large cities in Europe, SingTel in most major Asian business cities, and Telstra in many of them, and all of them also had offices in the U.S.<sup>89</sup>. In addition, and as discussed earlier, they joined in alliances with other telcos to be able to provide even more comprehensive global services to their MNE-customers. The process was more rapid than the traditional theories would suggest, especially in regard to operation strategies. This is common among business services with follow-the customer strategies, as uncertainties and risks to internationalisation are relatively lower<sup>90</sup>. Also for the case companies the first entries were made to serve their domestic industrialised customers who had internationalised earlier. Moreover, the perceived first-mover advantages in the industry further accelerated the process. On the other hand, with regard to market strategies, the B2B-activities followed much more traditional patterns, also supporting earlier theories on B2B-services. Table 11.7 below includes examples of relevant comments.

**Table 11-7 Comments discussing B2B services and the role of domestic MNE customers**

Sonera	The establishment of the data businesses in St Petersburg and Moscow was based partly on the needs of our existing customers. We had MNEs, also international, not just Finnish ones, who needed data services there. First we started with the Finnish customers. Then we decided to increase the economies of scale to sell also to local customers (and other MNEs located in those markets). What we did in our data services business was always driven by customer needs. We took these services that we already sold in our domestic markets.	About following Finnish MNE customers and the importance of the home market as the development base for the services.
SingTel	Basically we have office in almost every big city in Asia and some big cities in Europe and US. We are not in Africa. We are not in South America. [With regard to] the data internet services, you have to connect globally and your customers are largely enterprise customers. And enterprise customers, when they buy from you, they don't buy [service for one location only]. They will say, I need a link in London, Frankfurt, and Paris and then they give you another half a dozen Asian cities and you have to [provide all those locations]. If you don't have this you can't do it.	About SingTel's B2B market strategy and the need to be located in the major business centres in the world.
Telstra	You find there's quite a lot of Trans Tasman business and a lot of enterprise customers want to have a telecommunications solution that's common. They don't want to have one provider in New Zealand and one provider in Australia. We have tried to use that opportunity to milk our interests in TelstraClear.	The importance of being able to provide B2B services in both Australia and New Zealand.
Telstra	Firstly, our international business is around serving principally the Australian multinational companies that have offices offshore. And that's the basis of the business. Once you start down that track though, there are often other opportunities to service multinationals in those local countries where you can effectively become a challenger for certain niche operations. We have ended up with offices in other countries around the world, which are more presences to see whether there is business development to be undertaken.	About follow-the-customer strategy in B2B business, but then also gaining opportunities to target local companies in the target markets once presence is established.
SingTel	Now [the service provider serving] a B-end customer is in a weak position because the decision makers are on the other side. As he doesn't know you. An A-end is much	About the challenge in selling B2B services when the HQs of MNEs are

<sup>89</sup> Sonera had some plans/short-lived activities to have an office in the UK, but its major European office was in Brussels, Belgium.

<sup>90</sup> It needs to be noted, though, that there were high risks included, with regards to the large investments in carrier networks, the business area closely linked with the B2B operations.

	easier to secure. A B-end is hard. You have to have a person [in the A-end country]. You have to continually build knowledge (relationship). Let him know that you are not a small operator. [That] you have the ability to provide the service. In Japan especially, if you are a B-end [service provider] you must have a person in Japan and you must find a way to squeeze in to get into them. So I think this is important. Now we have 6000 MNE customers. Actually most of them are B-end [customers].	not located in your own domestic market.  Also demonstrating Singapore's strong position as a regional hub for many MNEs.
Sonera	The services actually were good and customers were buying, but when it was based only on marketing the services to Finnish MNEs, this segment was so small.	About the challenges of being a SMOPEC telco with relatively few home country-based MNEs to serve.
Sonera	We also discussed an opportunity of abandoning the whole B2B business. During the strong internationalisation phase the key strategy was to focus on global consumer businesses. Business customers were left on a side-role.	About the relatively smaller role of B2B business/MNE customers in Sonera's active internationalisation.

It must be noted, though, that for SMOPEC telcos there are relatively fewer MNEs to follow, as the headquarters of most of the largest MNEs in the world originate in the largest economies rather than in SMOPECs. Thus, it could be argued that the importance of international B2B customers has been smaller for SMOPEC telcos than for the most globalised large country-originated telcos<sup>91</sup>. So far the share of the revenues for the case companies from their international B2B operations have been moderate when compared to their B2C and domestic B2B operations.

#### 11.2.4 Organisation Strategies

Proposition 4 A suggesting that: *Telcos from SMOPECs follow multidomestic strategies, was strongly supported.*

All of the case companies started with an international organisation strategy. The focus of their operations remained in their home countries, they established separate subsidiaries and/or business units to manage international operations, and they exported services and goods from their home country.

However, when the more active internationalisation phases started, the strategies soon moved towards multidomestic ones. They invested in local telcos internationally and almost all of these companies had different brand names, separate management, and also several owners. There was little integration between the different country organisations. It could be argued that the fact that the case companies did not have control of these investments was one

<sup>91</sup> For Sonera this issue seemed to be the most pressing. Due the location of Singapore as a regional hub for many global MNEs SingTel seems to have had a better position compared to other SMOPEC telcos to target international B2B customers and it seems that it has been relatively successful in this perspective, at least at the regional level. Also Sweden, although a small country, has relatively large numbers of MNEs.

of the major reasons that a multidomestic strategy, instead of a global one, was implemented. For a global company the dominant position is important in order to gain control of the operations and to align them with a more centralised model. That is, the operation strategy is very closely integrated with an organisation strategy. This was rarely a requirement for the SMOPEC telcos<sup>92</sup>. Also, the brand recognition and the costs of building a global brand were limitations for SMOPEC telcos to implement a truly global strategy. This was a very different situation from some of the largest telcos in the industry, such as Vodafone and AT&T. In addition, the remaining differences in regulations, development levels, and consumer tastes between different countries, and the business logic of local economies of scale instead of global ones, all supported multidomestic strategies, as will be discussed more in depth in section 11.3 on factors influencing internationalisation strategies. This issue is closely related to market strategy, as if different country operations are located in countries with very different development levels, it may be very challenging to implement a global strategy; a situation which confronted all of the case companies. Supporting comments by some of the interviewees with regards to organisation strategies are highlighted in Table 11.8 below

**Table 11-8 Comments on synergies between the home market and international operations**

Telia	So it's very hard to see good synergies between mobile operators. It's not like Ericsson. I mean they produce something and they sell the same product all around. The markets are different and the way you use your phone is very different here [when compared to Asia, for example]. All of us have [to be] very local.	About challenges in implementing a global strategy in the telco business.
Sonera	In this type of operator business the development of operations includes a lot of concept development, marketing planning, and similar operations, in which localisation is important.	About the importance of local development in the telco business.
Telia	There aren't that many global non-regional players in the industry. Maybe Vodafone, Telefonica, Orange.	About the global vs. local business logic of the telco business.
Telstra	Country organisations, which are pretty much independent, independent of one another.	About the low level of integration between different country organisations.
Sonera	When we were a minority owner we did not have any proper chance to influence the service strategy and the content of their business.	About the limited opportunities to influence the business development of the international JVs as a minority owner.
Telstra	[I]t's interesting when you put the other hat on [from] your home market. [Y]ou've got to think like a challenger if you've got to operate like a challenger. That, to be honest with you, has always been my single biggest conceptual challenge to any business opportunity. [That is,] what is it that we're going to bring, exactly your question, that will make us operate differently and how will we think and operate like a challenger in those local markets. It wasn't always immediately apparent but on some of the adverts that we were looking at that we were able to bring that synergistic difference.	About the challenges (and opportunities) in being an incumbent in domestic markets and a challenges operator in international markets. <sup>7</sup>  Asymmetric organisation strategies.
Telia	And then of course as quick as possible we tried to get Estonian people in Telecom. In 97-98 we replaced the Swede with an Estonian, but one who had been in Sweden for many years.	About nominating local managers to country operations - one sign of a multidomestic strategy.

<sup>92</sup> It could be even argued that for SMOPEC telcos this may provide a competitive advantage. That is, due to their willingness to implement multidomestic strategies, they were not forced to enter the most costly and highly competitive large developed markets, often a requisite for a successful global strategy.



Proposition 4 B stating that: *Over time the organisation strategies of telcos from SMOPECs evolve from multidomestic to transnational strategies, **was only partially supported.***

When the internationalisation process proceeded all of the case companies seemed to implement at least some characteristics of a transnational organisation strategy. After Telia and Sonera had merged, the new company started with a transnational management and also some of the headquarters of individual business units were divided between the two countries. Also, many functions were now organised and products developed across country borders, especially within the Nordic countries. After SingTel had acquired Optus, a company larger than SingTel itself, the majority of its revenues were generated internationally and it also very soon nominated several Australian representatives on its Board and in its top management team. SingTel also brought representatives from its other target markets to its Board of Directors<sup>93</sup>. Also, SingTel's later initiative, the Bridge mobile consortium, was developed to transfer knowledge between different country organisations, including back to the home country. Even Telstra, although having the majority of its operations in Australia, implemented some ambitious transnational features during its active internationalisation phase by locating the headquarters of its international operations in Hong Kong, instead of Australia<sup>94</sup>.

In spite of these developments, many characteristics of a multidomestic strategy were still evident with all case companies. For most parts, the brands used in different country markets were still local. Also, as discussed in section 10.3 on TeliaSonera, some of the more recent developments seem to have reduced the input from Finnish operations, and later Telstra divested most of its international operations and the early advancements towards a transnational strategy remained temporary.

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<sup>93</sup> SingTel's Chairman of Board is from Thailand, and in addition to Singaporeans and Australians the Board has included members from India and New Zealand.

<sup>94</sup> Also Sonera implemented similar strategy in the 1990s, when it established its headquarters for international operations in Brussels, closer to the large European markets.

It could be argued that when moving from multidomestic structure/strategies onwards, a transnational organisation structure is a more feasible for SMOPEC telcos than a global one. It may even provide a competitive advantage, as the role of the domestic markets is relatively less important and dominant within the whole company when compared to telcos from larger markets<sup>95</sup>. This may create a situation in which it is relatively easier and more natural for a SMOPEC telco to let other country organisations participate in the decision making and R&D of the whole company, and search for and import ideas from other country organisations back to the home country<sup>96</sup>. Table 11.9 below includes comments from the interviewees with regards to multidomestic vs. transnational organisation strategies.

**Table 11-9 Comments on challenges created by different development levels between domestic and international operations**

SingTel	Clearly in bringing two organisations together there will be organisational issues. We don't want to underplay those, but we are also conscious that we have worked well in the incumbent's position but in other markets we have worked as a challenger and a new entrant. (Lee Hsien Yang, CEO, SingTel, in Telecom Asia, Jul 2001, pg. 20)	About challenges and opportunities in being an incumbent in the home market and a challenger in most international target markets.
Telstra	...also learn from these countries and bring that information, learning back to Australia and vice versa. (Q: Have you been able to realise any of this?) A: I think we have. Look, in a big company like Telstra it's difficult often to persuade entrenched interests, in the big company, that the little company has a better way of doing things. We find a lot of resistance to that. That said, CSL, the Hong Kong operator, was the first with mobile number portability. We learnt an awful lot from their experience and that put us in really good stead for managing our MNP process. Also with 3G, we've entered into a partnership with Hutchison domestically in Australia, but we only do the launch in the back half to this year. CSL has already launched 3G services. So we will use those experiences and understanding how important handsets are, understanding how important all the product offerings are, how to drive data usage as opposed to just simply a better voice network. All of those lessons will absolutely be built into our launch of 3G here in Australia.	About Telstra being able to learn from its foreign subsidiaries/associate companies and bring back some of that knowledge to develop its domestic operations- A characteristic of a transnational strategy.
SingTel	In the case of Australia [our subsidiary] is a challenger, and it is able to grow at twice the market. But challenger has also its limitations. Because what you are good at is a customer focus and marketing. Then what you are lacking is your backroom support, your technical skills, and your operational know how. I think this is where we can fill those gaps. So when we integrate Australia with Singapore, those backroom, technical, finance [operations are] all now run by Singaporeans. But marketing and all that are Australians. Then we will bring their marketing people to Singapore to run the challengers [strategies there]. So I think [these are] complementary skills.	About the difference of Optus being a challenger operator in Australia and SingTel an incumbent in Singapore, and the opportunities this provides for the whole group.
SingTel	We also cross pollinate ideas. Bring them some ideas. And of course it creates synergies through procurement [of handsets, network equipment, etc.]. Most of [the international associates] actually need advice from us and we actually do it in the form of a forum. We actually have meetings, like the six operators and mobile operators, they get together once every four months/six months and they send their CEOs and CTOs, and sometime they send a lot of people, and they discuss.	About 'cross pollinating' ideas between different country organisations. About achieving synergies in procurement and other functions.
SingTel	Because the markets are totally different. Here people are [using], for example, largely post paid cellular. But these [operators] (in the developing countries) have been [selling] prepaid successfully over the years. And to [provide] post paid mobile and prepaid mobile [services] is very different. Different in terms of equipment, in terms of business and in terms of pricing, in terms of the way you run your operation. In fact, I think that the Philippines, Thailand, and Indonesia, the synergy is between themselves now because they all [provide] prepaid services. They have different requirements than we have. So I think it is something that sometimes the knowledge flows back to us. Singapore probably plays a very insignificant role in the whole thing, other than money. So we have to move [in] a different [direction]. We have to actually [move from being] Singapore-centric. We have to bring the people into the globalisation.	About the differences in development levels between the home market and some target markets, and challenges and opportunities that this brings to an organisation strategy.

<sup>95</sup> For example, SingTel is significantly smaller than Optus, as already mentioned.

<sup>96</sup> Including international members on the board of directors and in the top management teams.

SingTel	There are two Australians on board, one New Zealander, one Indian director, and one Thai, who is also the Chairman. [Of the] eleven board members six are outside of Singapore.	About international composition of the Board of Directors in SingTel.
Telstra	[W]e looked at a number of transactions in different countries with a view to basically spreading our ability to leverage off both foreign markets as well as foreign customer bases and to learn from those markets and bring those lessons back to our own subscriber base.	About opportunities to learn from international markets and bring some of that knowledge also back to domestic markets.
Telstra	Other thing we started to find is as time rolled on and as the mobile markets in, particularly countries like Indonesia, developed, we found that there were things to learn from those markets to bring back to Australia. That was particularly around the pre-paid market. They have developed ways of managing costs on pre-paid that allow them to. There were the simple things like the amount of recharge, the minimum amount of recharge you're able to make on pre-paid. Up until recently we still had between \$20-30. In Indonesia the equivalent is for five cigarettes. It's that low. The choice is do I buy five cigarettes or do I send three SMS messages? You can actually recharge the equivalent amount of money. That's what's ignited that market. It doesn't make it less profitable, but it's a lot more, obviously a lot more transactions and it requires a certain distribution network and a commission structure to be able to make that pay. But gee, it does. It's a great business. That actually really started, I think in the Philippines, was the first country to develop that expertise and then Samart helped out companies in Indonesia and they developed a similar approach.	About learning from the developing mobile markets and taking these lessons back to the home market and to other international JVs/associates.
Telia	People that we hired were in the majority Swedish, but also English, Norwegian, Americans, Danes, from our own companies.	About global / transnational staffing strategy of Telia Overseas.

In summary, a transnational strategy could provide many opportunities, especially to SMOPEC telcos. In spite of many successful activities in this regard by the case companies, many of the opportunities were also underutilised and some recent developments have also been reversed. This is an area in which the case companies could perhaps improve further and gain a competitive advantage against their larger competitors<sup>97</sup>. In Table 11.10 below some of the interviewees discuss opportunities for learning that could have been utilised better.

**Table 11-10 Comments on learning opportunities that international operations provide**

Telia	Really one way. It was really one way, maybe with the exception of Unisource, that was more of a learning process as well. But Estonia I would say, well of course you learn, people that work there get experiences from other countries but from a technical point of view that was all management, there was nothing to learn. And I don't think we had [any] Estonian engineers working in the Swedish organisation. Not during my time at least. Maybe today.	About time before any transnational strategy characteristics were implemented: Transferring knowledge from home markets only to the target markets, not vice versa.
Telia	I think one of the last green fields we did was down in Uganda and they said, that operation is so smart. So Telia people, who have not been around, make sure you really go down and see how if you build it from a scratch. [We had a] tendency like we should go to the Baltic countries and teach them what to do. In Estonia [they are] very smart and they have had services far ahead of Telia. They do things much faster and smoother. I mean in all the Baltics and Russia, the technical qualities are extremely good. People are very well educated and no problem at all. Their marketing side might be missing but technically they are [very good].	About time before any transnational strategy characteristics were implemented: Transferring knowledge from home markets only to the target markets, not vice versa.
Telia	Telia's management, after Berg [left the company] (CEO Lars Berg), there has been not much focus on international business. Focus [is] mainly on Sweden. [There would be] a lot to learn also from [the operations in] developing countries. [They have] better technology and IT systems. It is sad, as Telia was not able to transfer experience from overseas. For example, Hong Kong is very competitive. In India and elsewhere in Asia there very competent and entrepreneurial people.	About not using enough the competences of the groups employees in the developing markets.
Telstra	I think there was more chance of us being more of a transnational company when we had the international division. It was their responsibility actually to deliver the transnational style of benefit.	About the lost opportunities to learn from overseas markets and how Telstra may have lost the greatest opportunity for this.
Telstra	Our wholly owned subsidiary Hong Kong CSL Limited (CSL) is also a leading provider of mobile services in Hong Kong. CSL's history of technical innovation in areas such as MMS provides great learning opportunities for us and will produce opportunities in the Australian and international markets. (Telstra Annual Report 2003, pg. 21.)	About the learning opportunities that the company's subsidiary in Hong Kong provides.

<sup>97</sup> For example, Telia could have benefited more from the competences of its employees in the Baltic States and Russia, and also NetCom ASA has been an active challenger operator in Norway. Also, Sonera's operations in Turkey could have been used more as a learning ground, and Telstra could have been even more active in using the competences of CSL, the challenger mobile operator in Hong Kong.

Telstra	Probably the biggest challenge is creating an organisational construct which puts opportunities and solutions together in a way that people are adequately incentivised to generate the best possible outcome. And I think that's one of the biggest challenges of internationalisation, I genuinely do. And I can tell you first hand, I believe that's the single biggest challenge we ever had. And it's particularly difficult where you've got a large mother ship and a lot of little satellites around.	About challenges in organisation strategy/integration when there is a large mother company and small subsidiaries.
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Proposition 4 C which claimed that: *Telcos from SMOPECs implement global organisation strategies in their niche-based businesses, was also partially supported.*

As already discussed, during the early phases of their internationalisation all case companies were engaged in consulting projects and in exporting goods and non-location based niche services. Also, during the most rapid internationalisation phase born global type of niche businesses/strategies were implemented by some of their subsidiaries. However, none of these strategies turned out to be very successful in the long run. Rather, the companies moved more towards bundling telco products together, also with regards to their international operations. All international global niche businesses were either terminated or divested. It could be argued that there is a poor fit between multidomestic (and later transnational) strategies on the one hand, and global strategies on the other. That is, within a single company it becomes very challenging to try to implement several different international organisation strategies at the same time.

Also, as discussed earlier, with regards to their B2B operations the companies followed niche type of strategies with their data services, had standardised products, and used the company's brand name internationally. This was in line with the findings in the literature review. That is, when targeting business customers with niche products the costs of this type of strategy can still be feasible, even for companies from SMOPECs.

## 11.3 Factors Influencing the Internationalisation Strategies

In this section factors that influenced the internationalisation strategies of the case companies will be discussed in more depth<sup>98</sup>.

### 11.3.1 Global Factors

Among global factors the most important for the case companies were MNE customers and financial markets. The *emergence of MNEs* was naturally relevant for B2B businesses, as was suggested by earlier research on the internationalisation of B2B services. However, the most important global factor was the strong role of *financial markets*<sup>99</sup>.

Comments by several of the interviewees and other data supported this, as illustrated in Table 11.11 below.

**Table 11-11 Comments on the role of financial markets for the internationalisation of the case companies**

Telia	At that time [Telia] was not a listed company. You didn't have the pressure to internationalise, or to grow or anything like that. It was just, we were on our own.	
SingTel	The Financial 1998/99 year was challenging for SingTel due to economic crisis in Asia. (Koh Boon Hwee, Singapore Telecom Chairman. Annual Report 1998/99)	The role of the financial markets in SingTel's internationalisation during the Asian financial crisis
Telstra	We got an absolute clear message from the investors that they had no interest in us making further investments offshore. So the message from the market was very, very clear. Give us the money back and don't go and waste it offshore.	About the role of financial markets with regards to the de-internationalisation / maturation phase of Telstra.
Sonera	I remember the second time we had to sell the shares. Initially the price that we sold for was approximately 6 Euros. Then it rapidly doubled and in the second sales the asking prices was 23 Euros. We thought that we cannot sell with 23 Euros unless we have something more with regards to our future (plans). Thus we started to consider this service business. We developed our sales stories based on them and we did believe in them ourselves too. Zed especially was like this.	About the role of financial markets in the Sonera's investments and effort to develop its mobile value-added services businesses.
Sonera	If there is one factor that needs to be emphasised, it is the role of the financial markets in Sonera's internationalisation.	
Sonera	Banking firms in London have revised up their estimates of Sonera's market value. Around a year ago, the former Telecom Finland was estimated to have a market value of around FM 15bn to FM 20bn, but this has now been revised up to between FM 27bn and FM 30b. According to London banking firms, Sonera is the world's most progressive telecoms company and is growing rapidly. The company's expansion into eastern Europe and Turkey is seen as a sensible move. (Kauppalehti, 10 May 1998, pg. 4)	About the role of London banking firms in analysing Sonera's internationalisation and share price movements during the rapid internationalisation phase.
Sonera	But in recent months stocks in telecom operators owning UMTS/3G licences, including Sonera, have been hit as investors and credit rating agencies worry about the huge costs involved in building the networks. Sonera's current business strategy [has] come under fire from analysts, who have questioned the wiseness for such a small operator to spend heavily on 3G licences in Europe. (Reuters News, 31 Jan 2001)	About the change in analysts opinions on Sonera during the de-internationalisation phase.
Telia	In 2001 Telia embarked on an ambitious quest to establish a major European telecom company through a strategic merger with Sonera and Danish telecom operator TDC. However, talks collapsed when the stock prices of all parties concerned showed significant dips in value. (RCR Wireless News, 4 March 2002, pg. 29)	The role of financial markets and stock price developments on Telia's merger plans.
Telstra	But without that ability to issue equity it is fine for the investors to say, give us our money back. The flip side of that is, 'Well then will you give it back to us when we present you with a valuable opportunity?' If it is valuable and it stacks up then surely you should want to invest in that. We were never going to be given that opportunity under the current regime. So it was a real problem for us and so that has been an inhibitor to internationalisation and further growth.	About the limitations that the investors put on Telstra during the de-internationalisation and maturation phases.

<sup>98</sup> See also Appendix 13, 'Factors Influencing the Internationalisation Strategies of SMOPEC Telcos', a revised version of Appendix 2.

<sup>99</sup> This finding also supported Tainio's (2003) argument of Sonera's finance-driven internationalisation, discussed briefly in Chapter 6, in which managers' aggressive actions were based on investors' visions.

*Homogeneous customer tastes* were not perceived (or did not come up) as major factors, as there were still differences in telecommunications services across markets, in spite of the fact that the telecommunications equipment, such as mobile phones, were already much more standardised<sup>100</sup>. This was also demonstrated by the fact that most of the brands in the industry remained local, with Vodafone and a few other large service providers being the exceptions. Later developments have moved towards more integrated services, but ‘customer tastes’ are not perceived as major drivers of globalisation in the industry. *Developments in transportation* were also not identified either as major drivers or barriers, although at some level in services time that the managers spent on travelling and/or time zones were a factor contributing to the emergence of regional market strategies, rather than global ones.

### **11.3.2 Industry Specific Factors**

As already discussed, telcos have followed different internationalisation strategies in many areas when compared to telecommunications equipment manufacturers or ‘born globals’ in the industry. Based on research results on value networks in the telecommunications industry, as well as earlier research on telco internationalisation, and case studies from this study on the internationalisation of SMOPEC telcos, several industry specific factors were identified as influential. Very different business logic and specific service characteristics of the sector expose telcos to different types of challenges when compared to the manufacturing sector or ‘born globals’.

The most important factors identified in the study were the *high capital-intensity/asset-specificity* (nature of the product); the different nature of *economies of scale advantages* (cost driver; in many areas *local economies of scale* rather than global); *deregulation/regulation and the greater role of governments* (governmental drivers); and the *changing industry structure and industry growth* (competitive drivers). Many of these factors have contributed to *first-mover advantages* (market driver) in the industry, but some of them,

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<sup>100</sup> Naturally the situation was different with regards to B2B businesses, as already discussed. In that business area MNEs were driving the development with their requirements for standardised services globally.

for example, local economies of scale, regulation, and government's role, also limited the need for the most rapid internationalisation processes, thus creating feasible alternative strategies for SMOPEC telcos<sup>101</sup>.

The comments in Table 11.12 by some of the interviewees illustrate how many economies of scale are local rather than global (for example, most investments in networks), although in some areas also global economies of scale are evident (for instance, procurement of handsets).

**Table 11-12 Comments discussing the business logic of economies of scale advantages in the telco sector**

Sonera	When the share of global operations of the total cost structure is significant the logic for internationalisation is very different than when the local operations share of the total cost structure is dominant. In the telecommunications operator business the local cost drivers are dominant. When a network has been built in a specific geographical location it is also a commitment for the operator to stay within that area. When the telco enters into another country, it needs to build a new network. There is no inevitable need to internationalise.	About cost drivers in the telco sector. Especially about the differences in the economies of sale advantages when compared to many traditional industries. That is, local economies of scale prevail in the telco sector.
Telstra	[Economies of scale advantages are determined] very much country by country, and very much a function of the local skills on the ground.	About the local economies of scale in the telco sector.
SingTel	How do we get value out of this? When we have 40 million [mobile subscribers] you have the advantage of cost savings. I can buy network. I can buy hand sets I can buy sim cards with volume discounts. If it's just Singapore alone, one [with just] over one million subscribers I can't get all those things. If someone wants to [sell you] an application they will ask how big is your subscriber base? [If you] have 40 million, 50 million, it is much better than one million. Right? A Singaporean company cannot compete with us because they are too small in terms of the size. We have the scale.	Although local economies of scale are evident in building networks, in the procurement of handsets and applications global economies of scale can be very relevant.

As mentioned, the changing industry structure and industry growth created some challenges but also provided many 'window of opportunities' to the first-movers in the industry, often forcing telcos to act rapidly – 'hunting for licences'. Also competitive strategy reasons were often mentioned as a reason to internationalise rapidly<sup>102</sup>. These points are illustrated in the comments by some of the interviewees in Table 11.13.

<sup>101</sup> The findings of the 'first mover advantage' in the industry support Ramamurti's (2000) and Stienstra et al.'s (2004) findings of 'herd-behaviour'. The important finding with regards to regulation is that markets which were liberalised at a more controlled and slower pace provided more opportunities for international expansion (for SMOPEC telcos), than the markets that were very open and where competition was very intensive. That is, although the governmental barriers limited market entries, they also protected the international investors who were able to overcome this first barrier and invest in the target market.

<sup>102</sup> Some of the aggressive internationalisation moves were based on defensive strategies and/or retaliations against international competitors, that is, competitive strategy reasons. For example, Telia's entry to the UK and engagement in Unisource were both caused by the British Telecom's active entry to Sweden, and Telstra initiated some smaller scale operations in Singapore partly as a mean to compete against SingTel in its domestic market. Also Sonera's entry to Estonia was partly motivated by competitive reasons, being a defensive pre-emptive move.

**Table 11-13 Comments discussing the first-mover advantages/windows of opportunity in the telco sector**

Telia	[The target countries] sell the licence to someone who is willing to build. So that's how [it] started. So then the licence hunting started in a way and I think Telia was rather early in going on this licence hunting.	About the process of bidding for licences in the mobile communications sector.
SingTel	The international telecommunications market is highly competitive. The industry is unique in that companies have to be licensed before they can operate a venture in any country. As licences are not an inexhaustible resource, we have to be ready to seize the right opportunities when these are available. (Koh Boon Hwee, Chairman of the Singapore Telecom Group, Singapore Telecom Annual Report 1993/94)	About the need to secure scarce licences in the industry.
Sonera	Uncontrolled growth was a danger, but at the same time it was important for TFV (Telecom Finland Ventures) to be seen to be involved abroad, as in three years' time it could be too late to enter a saturated market place. (Matti Suvanto, Head of Telia Finland Ventures' operations, Kauppalehti, 28 March 1994, pg. 4)	About the window of opportunity in the sector.
SingTel	Today many countries are giving out licences and franchises, but there will be a time when there will be no more licences to give. I think some countries in ASEAN are almost closed. All the cable TV licences in the UK, in a few years time, will be gone too. There will be licences, but they will not be the same as those that came up earlier. The conditions will be tougher, more complicated. It's a supply-demand problem. We saw this coming many years ago. We knew about it. We didn't start STI for nothing. We saw the change in the industry and made a deliberate effort to do something about it. (Sung Sio Ma, chief executive of Singapore Telecom International (STI) in Asia-Pacific Telecom Analyst, 30 Jan 1995, pg 11.)	About the urge to secure licences / window of opportunities in the market
Sonera	We were there ahead of the other telcos, a pioneer. We just had to continue. The pace (of internationalisation) was very rapid, and we were in that fast moving train ourselves. We had never experienced anything like this. It was kind of speed blindness, of course.	About the rapid growth pace of the industry as a factor in accelerating internationalisation.
Telstra	Telstra's hunt for acquisitions continues but good telco assets at the right price remained scarce despite the global industry downturn. There aren't a lot (of attractive) assets around. (Dick Simpson, President of Telstra's International Division, Courier-Mail, 7 Oct 2002, pg. 17)	About the scarcity of opportunities in the telco sector.
Sonera	Internationalisation became necessary with regards to defensive strategies as well. For example, a country like Estonia, from which there is a short distance to Finland and fibre optic cables can be easily drawn under the Baltic Sea or radio links over it, can provide a route for an international competitor to enter the Finnish telecommunications market. We had an objective to enter these countries ourselves and to control the telcos there at some level, to prevent competitive attacks against our domestic markets.	About the competitive strategy motives (such as defensive strategies) for entering international markets.
Telstra	The other is a strategic one and that is it's a lot easier to deal with a local challenger when you're biting them in the ankles in their local market. Another reason frankly why we're always interested at the Singapore market, because of itself it's not a large market but it has that strategic benefit, which you can keep the other guy honest in his home market and you can pick niche markets and go after him in his home market	About the competitive strategy motives (such as defensive strategies) for entering international markets.
Sonera	At one point of time the general perception was that there will be a few large telcos in the world. But I do not know. The signs that are now, no one talks anything about that anymore. It is difficult to see that to happen.	About the changes in sentiment, from the urge to globalise rapidly to a more conservative views of today.

### 11.3.3 Home Country Specific Factors

When analysing the home country specific factors of the case companies a few factors emerged as very influential to their internationalisation strategies, mostly following the expectations set in the literature review and in the propositions. *The size of the home markets* created some significant challenges, but also acted as a push factor for SMOPEC telcos to internationalise. These issues which were discussed in the within-case analyses are further supported in the comments by some of the interviewees in Table 11.14 below.



**Table 11-14 Comments discussing the role of the limited size of the home market**

Sonera	We had basically two options. One was to grow rapidly, which could not happen in the domestic market anymore, but to enter international markets. The other was to remain as an attractive target to some other telco.	About the push to internationalise or becoming a target for a foreign investor.
Sonera	We had to look for growth outside of our borders.	About the push to internationalise
Sonera	It was obvious. Here there are only five million people, so we had limited growth opportunities (in the domestic markets).	About the limited domestic growth opportunities and push to internationalise.
SingTel	Our home market is saturated. Three, four million people and 90% to 100% penetration. Not much room to grow. So we have to grow outside. Share our expertise outside.	About the limited domestic growth opportunities and push to internationalise.
Telstra	[R]ecognise that in Australia where three quarters of the market currently being owned by Telstra, that our opportunities for growth are going to be necessarily contained, either by the regulator or the Government or the effective activities of our competitors, so we have to look outside. (Ziggy Switkowski, CEO of Telstra (Switkowski, 2001))	About the limited domestic growth opportunities and push to internationalise.

It could be also argued that the need to internationalise early due to smaller domestic markets, thus *lower lateral rigidity*, provides a competitive advantage in the long-run, as it contributes to international experience and organisational learning on internationalisation. Moreover, the relatively advanced *development levels of the home markets* provided the case companies opportunities to internationalise. All of the case companies indicated that the competences developed in the advanced home markets were some of the key resources behind their internationalisation operations; this is also supported by the findings of starting the internationalisation processes through consulting projects<sup>103</sup>. In Table 11.15 below some selected comments from interviewees further highlight this issue:

**Table 11-15 Comments on the role that the development level of the home market plays in the internationalisation of the case companies**

Sonera	Finland was, after the UK, the second fastest country in the Europe to open its telecommunications market to competition. The background for this was a conscious aspiration to gain experience from competition before other European countries, so that this would create opportunities to internationalise (later).	About the reason for Finland opening its market to competition early.
Telia	At that time, in mobile telephones, it was really the Nordic countries that were leading the development.	About the Nordic countries being the most advanced mobile markets in the world.
Sonera	It was based on the idea that in Finland new innovative services and applications are developed continuously, and then these will be exported/transferred to the associate companies, meaning that our value as a minority partner is not only our 20% ownership share, but that we are the partner who brings continuously something new, something that generates revenues. Our market had opened to competition earlier than others. We knew more than others what happens when the competition opens. What are the issues that need to be paid attention to? How customers will react, et cetera? Second, in the mobile communications especially, we had already created new business in an area where others were still starting.	About the idea of Sonera and Finland being the pioneers in developing new products and services, which can then be taken to their international associate companies.
Sonera	In Finland the level of the telecommunications services was very advanced. In the mobile communications we were, together with other Nordic countries, at the top of the world. In the 1980s we had the only cross-national mobile network in the world, the NMT. But Finland was a small market. The idea behind [internationalisation] was that Finland is one of the most advanced telecommunications markets and that also in the future the services are developed earlier here than in other markets. Then we could develop a service packet, like 'Intel Inside'. We have developed [the service] in Finland, in a small market in which it is possible to test all kinds of new service ideas. Not all of them will fly, but it would be much easier and less costly to launch	

<sup>103</sup> They all score very high in several rankings measuring the development levels of the telecommunications services and also for competitiveness. See also Appendix 10 for a snap shot of the development levels of the home markets of each case company. However, it needs to be noted that there were also some differences between the development levels of the telecommunications markets of each case company, an issue which may have also partly contributed to some differences in the degrees and patterns of their internationalisation. This issue will be discussed further in section 11.5 on differences between the case companies.

	and also take away from the markets, than to do that in a country such as Germany or the US.	
Sonera	The competitive advantage in the internationalisation of Telecom Finland was that we were the first one to develop new services together with telecommunications equipment manufacturers. We were the first, also because in Finland the competition among the telecommunications equipment manufacturers started earlier than in any other country. This is the central factor for Nokia's success. That is, Nokia was forced to compete throughout its history even in its domestic markets.	About the importance of competition in the domestic markets.
Sonera	Especially when 2G licences were granted, auctioned (around the world), and networks built, then the Nordic countries were very advanced. The big thing was that we had developed and built NMT very well. When it was launched, it was clearly the most advanced mobile communications network in the world. Then we thought that some of the concepts could work more generally, in different countries. The idea was based on Finland being a test laboratory. That Finland can teach [others] things that will be useful.	About Finland and other Nordic countries being the pioneers in mobile communications.
Telstra	Telstra tended to be a fast follower, never a pioneer. Developing new technologies but watching around the world and quickly employing those technologies where they've proven to be able to be standardised. Then we've broadly adopted obviously the technologies that are standardised. But it's never been an inhibitor. We have tended to follow the international standards and haven't found that too much of a problem	About Telstra and Australia being an advanced telecommunications market, but not a pioneer, rather a fast follower.

The findings on the advanced development levels of the home markets can also be linked to the studies on *clusters*, as discussed in the literature review. More specifically the two Nordic telcos, Telia and Sonera, were able to benefit from the strong position that their countries had in the mobile communications industry<sup>104</sup>. It could be argued, more generally, that by cooperating actively SMOPECs could create larger and more competitive clusters than it would be possible within the borders of one SMOPEC only. If so, this could then benefit the internationalisation of the companies from all of these countries.

Also, as discussed with regards to the B2B strategies of the case companies, the development level and number of MNEs in the domestic markets was a very important factor to the internationalisation of their B2B operations.

The *role of governments* was a more complex issue. On the one hand, active deregulation developments contributed to the development levels of the markets. On the other hand, especially during the early phases of internationalisation the governments seemed to have some influence on the internationalisation of the case companies. Surprisingly, it can be seen that the case companies in which the government ownership and/or control remained dominant longer seemed to be more successful in the long term with regards to their internationalisation<sup>105</sup>. Thus, it could be argued that this provided some protection from too

<sup>104</sup> This position was very much a result of the successful cooperation between the Nordic telcos in developing the NMT system.

<sup>105</sup> See also Appendix 11 (Government's Ownership in the Case Companies). As already discussed in the Telstra section, one of the arguments against the sale of Telstra shares by the Government was that a foreign ownership

open competition in domestic markets, more financial resources, and also protected the companies from some of the most aggressive influences by the financial markets, which eventually resulted in overly risky strategies for many in the industry<sup>106</sup>. These issues are illustrated in the comments by interviewees in Table 11.16 below:

**Table 11-16 Comments discussing the role of the home governments - from challenges to opportunities**

SingTel	SingTel has always been close to the Government. (Heng and Low, 1990)	
Telstra	Given the unarguable pivotal position of Telstra in this industry, then the national interest and Telstra's interests are aligned. (Ziggy Switkowski, CEO of Telstra, at the National Press Club, on 3 Nov 1999)	The important link between Telstra and the Government.
Sonera	This is an important issue, in which I would definitely include ownership as a part of the function. The problem is same than studying a cooperative. The objectives of the owner will guide strategy much more than it is ever possible to find in the official rhetoric.	About the role of politics and the Government in influencing the company's strategies.
Sonera	Maybe there were some political pressures in Finland to enter also other Baltic States than Estonia.	About the role of politicians/the Government in guiding Telecom Finland's first international entries.
Telia	The government was pushing. They wanted to show solidarity and they wanted to help. At that time we didn't have a social democratic government, which is the normal thing here. But this was the liberal conservatives from '91 to '94 and they were of course pushing very much to prove that now that the Soviet Union had imploded we had the responsibility and we had to show that this is a better world. So a lot of politics was involved. The [entry into] Baltic countries was driven by political reasons.	About the influence on politics in the entries of Televerket/Telia to the Baltic States.
Telstra	One probably has to go back to the time when Telstra was wholly-owned by the government for the style of its internationalisation involved mainly in what we call B-O-T schemes. So it's build, operate transfer schemes. Which is done for foreign governments Vietnam. Australia was one of the first countries to recognise the new government and in fact one of the first organisations to get involved in commercial activity in Vietnam was Telstra. And I would suggest that they were more government to government to arrangements where Telstra was the government instrumentality at that time that delivered the service.	About the role of government in providing support with regards to the early international operations
Sonera	Politicians are also important. The investment in Estonia, FIM 200 million, was a big sum at that time and had to be approved by the Government. However, it was easier to get approval for the investment in Estonia than in Turkey. Politicians had doubts about Turkey. For example, about its human rights violations. In general, politicians have supported and believed in our decisions.	About the role of politicians and the Government in approving Telecom Finland's early international investments.
Sonera	The Government did not intervene (in decision making), but you could say that there were some reservations and caution. For example, when [Telecom Finland] was still an unincorporated state-owned enterprise and [the plans to invest in] Turkey started the law stated that all international investments had to be approved by The Cabinet Committee on Economic Policy (the Government). For instance, when the company, which was not very large [initially], was established with a local partner in Turkey to apply for a GSM licence, it was only an investment of a few tens of thousands, but still the approval had to be obtained from the Cabinet Committee on Economic Policy. I remember when the debate was on, that it was OK that Tele will start to internationalise, but is Turkey really the most attractive target market. But overall the main message was that internationalisation is wished for and the company itself needs to see how it will happen (in practice).	About the role of the government in the decision making process during the early phases of internationalisation, in this case limitations that a government ownership creates.
Telia	Telia had big problems getting things through their parliament. There were a lot of ideas in there that never [realised] because it was so hard. [Telia] was all governmentally owned and they couldn't make the decisions. Then they (Telia's management) decided to move all the overseas licences into a special company [Telia Overseas].	About the challenges in a bureaucratic decision making process that limited Televerket's/Telia's internationalisation.
Sonera	When Turkcell was established, it required approval from the Government. We were still an unincorporated state-owned enterprise. I remember well when the Government had a big debate about whether it was worth taking such a high risk.	About the need to get an approval for the largest international investments from the Government.
Telia	Because this way we could say to the Government, this is a separate unit, we have	About using Telia Overseas, a company

could scale down Australian research and development operations, and Telstra's international expansion plans, thus affecting the viability of the whole Australian telecommunications industry. Since Telia's and Sonera's merger there have been some observations towards these types of developments with regards to Sonera in Finland, so it could be argued that these types of concerns have some ground.

<sup>106</sup> It needs to be noted also that politicians and/or governments had reservations on many of the most successful internationalisation operations by the case companies, such as Sonera's investment in Turkey, Telia Overseas' global investments, and Telstra's investment in CSL in Hong Kong. That is, these investments were made instead of some political opposition.

	our shareholders and we have to make decisions on commercial grounds and no politics, and so on. And that company then invested in Ecuador, in Namibia, in Uganda, in Sri Lanka, in Hong Kong and Brazil and so on. In mobile licences.	with external investors, as a mean to circumvent political decision making processes.
Telstra	And as has been foreshadowed in parliament, even reasonable transactions to buy and sell assets end up being hostage to the political gaming that inevitably is going to be the case when Telstra and privatisation becomes part or has been declared to be part of the next election campaign. So I think government ownership and being a quasi-political issue does get in the way of being able to operate as effectively as you could if you were a fully commercial enterprise. (Ziggy Switkowski, CEO of Telstra (Switkowski, 2001))	About the influences of political game-playing on the company's internationalisation strategies and decision making ability.
Telstra	The problem for Telstra with that kind of approach from the investors is that without the ability, because we couldn't issue equity because the government legally had to stay a controlling stake, we couldn't dilute them down. We were never going to be given that opportunity under the current regime. So it was a real problem for us and so that has been an inhibitor to internationalisation and further growth.	About the Government ownership being a limitation to the company's internationalisation strategies, especially with regards to the boldest moves, such as major equity sharing arrangements.
Sonera	It (Telia's and Sonera's merger) did not proceed during my time, mostly because Telia's stock listing was delayed due to Swedish reasons, and it was very difficult to try to define common values for Sonera and Telia, one being listed on the Stock exchange and other not. It may have been the ultimate reason for Lars Berg (Telia's CEO) to leave the company. Maybe he too became frustrated that Telia's listing just kept being delayed. Then he left and became the head of Mannesmann's telecommunications operations.	About the challenges that the Government ownership created to the early merger/cooperation plans between Sonera and Telia.
Telia-Sonera	In Sweden they have this political game. (Labour) union game. The main reasons for this game are conflicts between the real objectives. There are many national objectives which do not relate to growing shareholders wealth, as should be the objective of a listed company. They have inadequate understanding of what is an international company. Still the unions there think that this is a Swedish company, which operates in Sweden. They don't even speak English. They do not understand that there are business opportunities outside Sweden too.	About the role of politics, and especially labour unions, in Telia-Sonera, and how that influences also in its international strategies, even after the merger.

Interestingly, some home country factors specific to SMOPECs seemed to provide a competitive advantage for the case companies. As the telco sector was often perceived to be very strategic for a country and governments play an important role, political strategies have often been a very important factor in negotiations on inward FDI. In this type of environment SMOPEC telcos were often perceived to be *less threatening* and the power balance to be more even with local partners than would be the case with the telcos from the largest economies in the world, making them more attractive partners. It could be argued then, that this can be a competitive advantage for SMOPEC telcos when entering into foreign markets, especially in many developing countries. This issue is illustrated in the comments by interviewees in Table 11.17 below.

**Table 11-17 Comments discussing the 'non-threatening factor' of a small country telco**

Sonera	The opportunities to enter new countries for a country like Finland, which is neutral and with no covenants due to colonialist history, are almost unlimited. (Pekka Vennamo, ex-CEO of Sonera (Vennamo, 1999', pg. 81))	About the fact that in addition to the British no other countries had significant experiences in operating telecommunications services internationally, thus providing very good opportunities for a telco from a neutral country to internationalise.
Sonera	We were small. We did not pose any threat, you could say.	
SingTel	No, the reason is that in most of these investments they (large country telcos) want 51%. They want to take control. They replace the top management. I think that's very frightening (for the target countries and companies). We don't do that. We always take a minority stake. 20% is enough for equity in accounting. We don't impose a threat to the management. That I think is a difference.	About the difference in approaches when compared to the approaches of the largest telcos in the industry. That is, SingTel posed less threat to the companies in which they wanted to invest in.
SingTel	We do not insist on controlling the company.	
Telstra	I would say that Telstra probably, that an Australian company and in this case Telstra,	About Telstra, and Australian

	<p>probably starts off with an advantage as opposed to a disadvantage. I think the concept of American companies investing in some of these countries is problematic. So I would say in terms of Asia, we probably start with a slight advantage in terms of the American players, and possibly the bigger UK operators like BT. I think it's perceived as being the American's coming in and basically raping and pillaging and taking a number one position and ripping off the local consumers. I think it's seen with some scepticism as to real motivations.</p> <p>In some of these countries it's probably seen as the American government and you're seeing a lot more of that now with this war against terror. But I think all that's doing is playing on a sentiment that always existed. I don't think this is new, in any way, shape or form. Less so with the European countries, much less so with the European countries.</p> <p>To the extent to which I think in many instances we were potentially looking to buy out as part of a potential acquisition, a US company. The reaction we got from the companies themselves was that they would be extremely well received by the government officials, being seen as a major improvement on the current shareholding structure.</p> <p>So I think there was a lot of disappointments and they saw a new change and a new partner coming in as an opportunity to address that and saw indications from Telstra that we were prepared to invest time and effort in improving the [operations] of the local operator.</p>	<p>companies in general, having an advantage as a partner in international investments over MNEs from the largest countries.</p>
Sonera	<p>It helped that Finland was a country that others are not afraid of. 'Tasteless and odourless'. This is convenient especially for the authorities in developing countries and in the emerging markets in the Eastern Europe. Finland is not a threat.</p>	

### 11.3.4 Company Specific Factors

The analysis of the company specific factors was based on the RBV of the firm, analysing the *physical, human, organisational, and financial* resources of the case companies.

Although the telco sector is capital-intensive, *physical resources* were not deemed to be among the key resources for the case companies' internationalisation, with the exception of some of their most successful data network projects in B2B operations<sup>107</sup>. Local economies of scale advantages, discussed earlier, mean that physical resources are often not transferable across countries. Thus each new entry requires new investments in physical resources. This relatively small role of physical resources for the case companies' internationalisation was emphasised further due to their smaller sizes and the high capital intensity of the sector.

Traditionally, the competences that the case companies had in the *human resources* area were political and technological. This was natural, as they operated as government-owned monopolies in a technology-based industry. However, over time, as the competition opened in their domestic markets, they started to generate competences in management and

<sup>107</sup> Most of the carrier networks that the case companies had invested in were written off the book values, indicating that the value of these resources is minimal, in some cases even negative, although it needs to be noted that some of these write offs may also have been motivated by tax reasons. Some successful carrier network projects were Sonera's fibre optic cable to Russia and SingTel's investments in some regional cable connections, such as its connections to India, which can provide services to many MNEs outsourcing their services to India. It remains to be seen if these investments in carrier networks will become a more valued resource again in the future, if the need for capacity arises.

marketing of telecommunications operations, especially in the advanced business areas of mobile and data communications. Thus, there was a clear link between the development level of the domestic market (a home country specific factor) and the human resources of the case companies (company specific factors). This transformation in the emphasis from political and technical competences to management and marketing competences was evident, although political competences still played some role even during the later phases of internationalisation, as often the local investors in the target markets were governments and/or organisations/people with close links to them.

Another frequently mentioned factor was the *international experience* generated in the consulting projects during the first phase of internationalisation, and in international inward and cooperation activities. All these activities provided general internationalisation experience and also helped to develop necessary relationships in many distant markets.

An interesting finding was *the strong role of the CEOs* in the internationalisation processes of the case companies. It can be argued that any CEO would have an important role for his/her company's strategy. However, the traditional internationalisation theories have not emphasised this issue<sup>108</sup>. The strong role of CEOs came up in several comments by the interviewees and other case data. For example, in Telia's case Tony Hagström, the Director General of Televerket, and especially Lars Berg, Hagström's follower as the CEO of Telia, both were very internationally oriented. During their time, the company actively entered even distant countries, whereas some of the following CEOs, such as Marianne Nivert and Anders Igel, divested many of these operations and were much more cautious with regards to internationalisation<sup>109</sup>. In Sonera, many of the managers with a long background in the

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<sup>108</sup> The traditional 'economic' theories focused on other than human factors, whereas the traditional process theories included organisational learning as a factor, but omitted the influence of individuals. Research on born global companies has emphasised the role of individuals, but these were studies of small entrepreneurial companies rather than of MNEs. This lack of research in this area was acknowledged by Liesch et al. (2002).

<sup>109</sup> For example, Tony Hagström was born in the US from Swedish parents, and even had an international nickname, Tony Tiger. Lars Berg, who had an extensive international work experience at Ericsson, was actively pushing Telia to internationalise: to cooperate in Unisource and invest in mobile operations globally, whereas Marianne Nivert, with a long background in Telia's (domestic) network operations, made a turn in strategy by starting to divest these global mobile operations and focus on Telia's network businesses in markets closer to home. One specific example of the importance of the CEO's role is Lars Berg's good personal relationship with

domestically and technologically oriented incumbent were relatively conservative and cautious with regards to internationalisation, whereas Pekka Vennamo, the first CEO of the newly named company Sonera, was actively pushing internationalisation, including investments in foreign markets<sup>110</sup>. During the most rapid internationalisation phase CEO Kaj-Erik Relander was very internationally oriented, even downplaying some of the more traditional operations. In Telstra the most active internationalisation phase was under CEO Ziggy Switkowski, whereas his follower focused mostly on the domestic markets. Moreover, in media many of the major international strategic moves by the case companies were linked strongly to actions by CEOs. Below in Table 11.18 are comments by some of the interviewees that illustrate this issue.

**Table 11-18 Comments discussing the role of the CEOs in the internationalisation of the case companies**

Sonera	Vennamo was very active in this, with regards to Estonia.	CEO's role
Sonera	When Relander became the CEO, then the ambition level increased. Then we developed a new strategy, in which one of the key areas was International Business.	CEO's role
Sonera	It could be said that Relander was, that during the last two years the strategy by Relander was very dominant. During the final phase of [internationalisation].	CEO's role
Sonera	In this company, we have had many changes in our top management during the last ten years. So many CEOs during this time, from Tarjanne to Vennamo to Salin, et cetera. There is not enough continuity. You do not internationalise a service business in two years. It is a very long road. There should be enough patience to do it well and without many irregularities, so that competences and processes, customer satisfaction, and all must be built with determination. Always when we made some organisational changes it interrupted the processes and people were moved around. The influence of this was significant. Much more significant than could be imagined when looking from outside.	CEO's role
Telia	He was namely one of the most important decision makers in an epoch when Televerket took a leading international role within mobile telephony. Tony brought with him from the States a rather different attitude than the Swedish norm, an impatient and industrious youth. His subsequent nickname of 'Tony Tiger' indicates how he was regarded by his colleagues and subordinates. - Comments from an article about Tony Hagström, ex-Director General of Televerket, (Fagerfjäll, 2002)	CEO's role
Telia	We wanted to go into Brazil and that's because [Lars Berg had] just worked for Ericsson in South America. Had a strong interest in South America and spoke Spanish. He had a lot of contacts.	CEO's role
Telia	But it has been a business that's been very dependent on the present CEO, I would say. Lars Berg was very interested. So when he was around it (international mobile business) was kind of a leg, one of our legs. It was kind of one of our core businesses. While [Marianne Nivert] didn't know what to do with it really and Marianne Nivert, she didn't want mobile. So she cut it off. (Q: How much these decisions came from the board and owners and government and how much they were like personal perspective, personal views?) A: Personal views all the time.	CEO's role
Telia	[A]s a CEO she (Marianne Nivert) was not very fond of mobile business. She was a networking person. So she decided to, as the international business was very much mobile, she decided to sell that, sell it out. So then there was an order to sell out all.	CEO's role
Telia	New management did not support 'non-core businesses'. Telia's management after Berg were not much for international business. Focus was mainly on Sweden.	CEO's role

As for the case companies' *organisational resources* a factor that seemed to be very important was their reputation as global experts, especially in areas such as mobile

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the CEO of the Netherlands' PTT Telecom, which resulted in the establishment of Unisource (Granstrand and Johansson, 1994).

<sup>110</sup> For instance, several of the interviewees and other case data emphasised Vennamo's close contacts in the Baltic States. He was also actively encouraging Sonera's managers to examine investment opportunities globally, including in Africa and Asia.

communications, linking human and organisational resources closely together. However, it is important to note that the companies' brands, or brand names more generally, were not significant, as almost all of the case companies' entering into international markets were based on local brand names<sup>111</sup>.

Another organisational resource, networks and relationships, a factor closely linked with the network approach model, supported the internationalisation of the case companies, but not as much as would have been expected<sup>112</sup>. For example, Ericsson's and Nokia's direct roles in Telia's and Sonera's internationalisation, respectively, were not very significant. Telia and Sonera were engaged in some projects as subcontractors for these companies, but in many other projects it was actually the telcos that were the drivers, and in many cases their international country organisations acquired their network equipment from other suppliers. These issues are illustrated by the comments of some of the interviewees in Table 11.19 below.

**Table 11-19 Comments on the role of organisational resources**

Telstra	Telstra has a very good name for its engineering expertise and while it was owned by the government there was no expense spared in terms of building the networks. So we always did have the best of the best. And I think that, certainly that reputation was freely shared in international conferences. There is no question that every time we were interested in any asset we were always taken very, very seriously in any one of these Asian countries.	Reputation
SingTel	Firstly I think we have developed a name already. We have become known, number one. And we also have a certain style, business model or philosophy that these people see it's a good fit. They think we are quite successful in Asia.	Reputation
Telstra	Whenever we've looked at buying international assets it's always been to use the local brand in the local market, never to make it Telstra. No one's ever heard of Telstra. But Vodafone has obviously gone about this in a very, very different way and wants to have Vodafone around the world.	Brand
Telia	[Telia had a] training school in Kalmar. [There were] management courses to Telco execs around the world. Aid funded. Latin American mobile [execs]. Asian [execs]. [The courses lasted] 6, 5, 4, 3 months. Management training was important. [As a result there were] many Telia minded people in overseas telcos	Contact network
Telia	That was our first step to internationalisation and because of the school we got an extremely good network.	''
Telia	The development of this company, it was important in the way that we got a very good contact network all over the world. We also did things in Asia and we had a telecom school in the south of Sweden where we had telecom people from all over the world coming to different classes. It also meant that we got a very good network of telecom people, former ministers, or coming ministers, or head of the incumbents in all those countries, in chief positions.	''
Sonera	Q: Did you cooperate with Nokia (to enter international markets)? A: No	''
Telia	Q: How important was Ericsson in these projects? I mean was there anything from the government side or was Ericsson involved? A: No it was always them as a supplier, but they were not driving this	Contact network
Telia	In Brazil there was a big issue whether we should have Ericsson or should we have Nokia or Nortel. I don't think they've been instrumental in helping us getting the licence, more than giving us good financing.	Contact network
Telia	Ericsson's role was to provide vendor financing and it was related to standards. There was no other big role. For example, in Slovenia it was Siemens (who supplied the network).	Contact network
Sonera	Nokia and Ericsson were there (in the US), but they did not help much, rather vice versa.	Contact network

<sup>111</sup> With regards to B2B operations, the case companies used standardised brands, but even in these cases, it could be argued, the brand recognition was lower than for the largest global players in the industry, such as AT&T, BT, Cable & Wireless, MCI, and Equant, and for Vodafone in the mobile communications.

<sup>112</sup> It needs to be noted that the networks and contacts developed when the case companies operated telecommunications schools for authorities and managers from developing countries were deemed to be very useful with regards to several following investments in developing markets.



One of the basic assumptions of this study was the limited resources of SMOPEC telcos, and it was expected that *financial resources* were not deemed to be important when compared to the relative influence of other resources. Although this issue was confirmed by each case study, it needs to be acknowledged that for some of the case study companies their dominant position in the domestic market did provide strong positive cash flows, and financial resources. However, when compared to the largest telcos in the world, this was still not a competitive advantage. Comments in Table 11.20 illustrate and support this issue.

**Table 11-20 Comments discussing the role of financial resources**

Sonera	We have been a welcomed partner, as our money is intelligent money. [They wanted to have] somebody as a minority partner or an investor who is a mobile operator and already knows the business. The logic is that, for example, in Turkey a few of the best people/experts are to be sent as expatriates.	Financial
Sonera	About failures more generally. The worst have been the ones in which we have invested a lot of money. And over time it has usually become evident that there is a need to invest more money. The estimations seem to always be tentative with regards to how much money is needed and eventually the [financial] resources have run out.	Financial
Telstra	Look one of the other challenges we have, we have got a small balance sheet in the global scheme of things. You can't go buy networks in the UK and the US and Europe, we don't have the balance sheet to do that, nothing like it. And we don't have any aspirations to do that. I think that would be silly.	Financial
Sonera	During the early phases of mobile communications business we received a lot of requests from developing countries, from other parts of the world. Requests to [participate in the projects]. And we were not asked to join with a thick wallet, as an investor, but as an expert. Most of the offers were the type s that if you come and bring your knowhow, and tell us how to build up a network, and how to make money with it, you will receive 15-25% ownership as a payment for investing knowhow. Unfortunately we did not grab those [opportunities] as [much as] I would have wanted. [For] a company like Sonera, and a country like Finland, and the companies operating in this country, their strength in internationalisation is not to go and build expensive infrastructure, or machinery, with thick wallets, and then make money out of that. I believe strongly that the internationalisation of a Finnish company should [be based on] the export of competencies and knowhow developed in the company (in domestic markets).	Financial
SingTel	Especially for a start up company the local investor is usually a non telecommunication company. We go in and they have no idea of what telecommunication is. We even send people who go and look for, survey the site, look for how can we start a base station and that sort of thing. So we contribute with the know-how that we want, not just money alone. I think money of course is welcomed. It is important. But if it's just money then it becomes a pure financial investment and that's not what we want. We want to invest [money] plus we want to contribute in the running of the business.	Financial

### 11.3.5 Host Country Specific Factors

With regards to host country specific factors, the case companies obviously analysed several factors, but a few of them were emphasised more than others: *the role of the host government and regulation/deregulation, and the development level of the market*, combined with the *growth potential*.

The role of the host government was very important and linked to the overall deregulation/regulation developments in the industry. Due to the political nature of the telecommunications sector, this issue was emphasised and many of the international operations and/or bids to invest were significantly affected by the host government activities. Regulation and deregulation are closely linked with the role of the host government, also

contributing to the competitive environment of a target market<sup>113</sup>. Moreover, as the sector is very capital-intensive, the stability level of the host country was deemed to be an important factor. These issues are illustrated by comments from interviewees in Table 11.21 below.

**Table 11-21 Comments discussing the role of the host governments, politics, and host country regulation/deregulation**

Telia-Sonera	It becomes a political issue when a large international investor wants to buy the biggest national telecom companies. As well it should be. (Kenneth Karlberg, TeliaSonera's president for Norway, Denmark and the Baltics. TeliaSonera World, Nov 2004, page 10)	The role of politics in the large telco investments in target markets.
Telstra	The licences, a fixed number were granted, everyone knew they would be granted. Those would be the only licences. And they had to do that because they wanted to get a lot of money for licences up front and had to give protection for people who were buying those licences.	About the role that a limited number of licences has in entering a market.
Telia	But the mobile development was different because the mobile development in all countries was based on licences.	About the role that a limited number of licences has in entering a market.
Sonera	These fixed-line companies in the Baltic States, they were profitable from the start. As they were monopolies it was an easy thing to set the tariffs.	The role of host country regulation & profitability

As was already discussed in section 11.2.3 on market strategies, the *development levels* of the target markets correlated negatively with the pace and activities to internationalise. That is, the psychic distance paradox was supported. The potential future growth was far more important than, for example, existing GDP per capita or telecommunication user figures<sup>114</sup>. The role of other relevant host country factors are illustrated in comments by some of the interviewees in Table 11.22 below.

**Table 11-22 Comments with regards to the development levels of the target markets**

Telia	Low (mobile phone/subscriber) penetration was one important criterion for us to enter into a foreign market.	Development level supporting the psychic distance paradox
Sonera	For example, in Estonia, Russia and Turkey, let's say, they have some practices which are a bit unfamiliar to (Western) business (culture). There were other (countries) like this too.	Business distance
Sonera	For some reason in Sonera and in the old Telecom Finland mobile business organisations they had an affinity to operate only in so called civilised countries, which are nice to live in. Places such as India, Africa, South America, felt very terrifying for them, and then these opportunities were not grabbed as much as they should have, which resulted in more modest internationalisation developments.	Culture does matter, although often overridden by other factors
Sonera	Old economic relationships (between countries) influence market strategies.	History / politics
Telia	We had preferences, yeah. There were a number of [them]. They had to be a politically stable country. There had to be a mobile licence (available). We were not going to go (alone). We had to have a partner so that we didn't take 100% ownership.	Political stability Licences
Telia	I think culture is an important thing but I think you can overcome that by getting the right resources on the ground. And in many instances a local partner does bring a lot of that.	Culture less
Telstra	Currency was an issue we looked at quite carefully. And probably currency being a manifestation of political risk.	Currency/stability/ political risk
Telstra	...potentially shaking free some substantial interests in attractive assets in markets like Indonesia, Thailand, Malaysia and those were all the markets we were interested in. Probably those, I would say those three probably in particular. The Philippines was considered. There were significant political risks over that period of time in the Philippines. Not that the others didn't have political risks but it was far more manageable than some of the other areas. And all through that time we've been	Business practices and stability as factors

<sup>113</sup> Some of the industry regulations/deregulation decisions are global or regional, but as discussed in Chapter 6, there are still significant differences between different country markets. Thus, national governments still play an important role with regards to regulation/deregulation.

<sup>114</sup> As discussed earlier, this was opposite with regards to B2B operations, which targeted mostly developed markets. Also, Telia's entry to the UK was partly to provide learning opportunities from a developed telco market. However, these types of motivations to entry in international markets were the exceptions.

	looking at opportunities in China but have found that the opportunities have broadly been limited to more technical in advisory contractual arrangements, as opposed to any opportunity to really get any equity upside in an underlying business. And leading up to world trade round and the agreements with the US, prior to that there was little chance ever frankly of, it would seem, there being any real deregulation in China.	
Telstra	...invariably, and country by country, because there is no such thing as Asia, as you would know. But country by country you really had to assess it in terms of the local politics and the local method of doing business. I mean I have to be blunt and say that one of the biggest challenges we've always faced in any of these countries was their method of doing business. You know, we have very, very strict operating guidelines around the way we do business and they're the same, as all other international companies have. And they're rules that are cast iron. There is no blind eye, turn a blind eye because you're operating in Indonesia. So these are all these things that we have to stare down and as I say, as it turned out we never bought any substantial material businesses in those countries and in Hong Kong market that kind of thing just doesn't happen. And I'm talking about facilitation payments and the like, ... pulling any punches. It's much more difficult in countries like Indonesia and to some extent Malaysia, Thailand, Philippines.	Business practices
Telia	It was very much what licences were coming up. But of course, I mean you could go to, I mean if you had, there were licences coming up in west Africa and ... no we are not going to fight this because it's French spoken and we don't have enough people in our teams to send out and build in a French country. Or we would need a French partner, you know. But basically we've been more or less all over the place. I mean that was more a business decision. Who are the competitors and what the legal situation is. The strategy in a way has been the same all the time.	Language
Telia	Our criteria included a stable country, English speaking country (when analysing African countries), local partners, new licences, and the competitive structure. We wanted to be the number one or two in the market.	About the different factors that Telia Overseas was considering, providing support that in ceteris paribus situation psychic distance will influence internationalisation strategies.

As also discussed in section 11.5 on market strategies, over time the role of psychic distance, especially *geographic distance*, increased. Also, *culture* and *language* were often mentioned as factors and included in the evaluation of the new target markets, but regularly overridden by other factors, especially during the most rapid internationalisation phase<sup>115</sup>.

#### **11.4 Different Phases of Internationalisation**

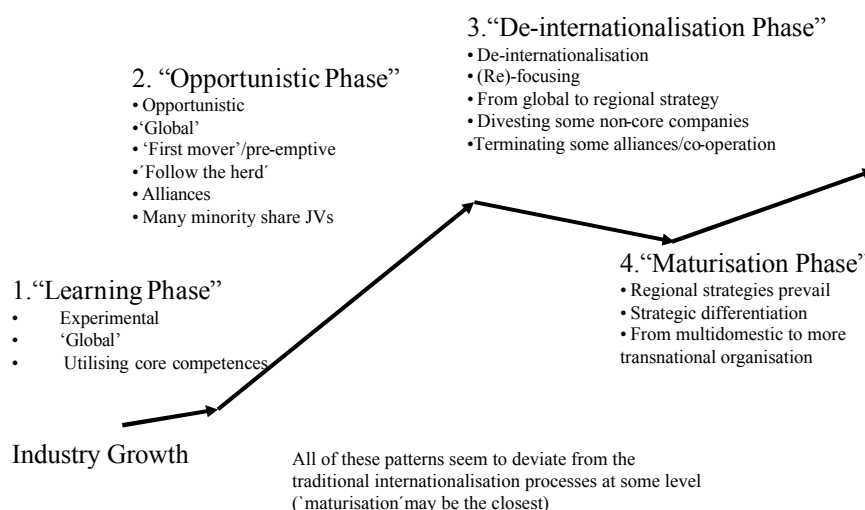
As mentioned in the introduction of this chapter, and (implicitly) demonstrated in the previous sections, four separate phases can be identified in which the case companies have internationalised: the *Learning Phase*, the *Opportunistic Phase*, the *De-internationalisation Phase*, and the *Maturation Phase*. This is illustrated in Figure 11.1. This identification of separate phases in the process is different from the phases of most traditional and deterministic theories, and also adds to the existing research on services. The factors identified, and discussed in the previous sections (especially the pressures from the financial markets combined with the pace of growth of the industry, and the role of governments and

<sup>115</sup> For example, culture and/or language played a role in Telia's entries into Africa, as the English-speaking countries were preferred over the French-speaking ones; SingTel's success in Asian countries with large Chinese populations, less so in Muslim countries. Overall language was not a major issue, though, as mostly the companies engaged local partners and the business language used on most parts of the world is today English. In some cases the differences in business practices between the home countries and potential target countries were an issue, resulting also in failed bids and/or de-internationalisation decisions.

regulation), have had a significant impact on these phases, supporting some of the studies discussed earlier (Sarkar et al., 1999, Tainio, 2003). During the early phases ‘herd-behaviour’ was relatively strong, whereas during the later phases more strategic differentiation occurred, which supports the integration of strategic management concepts to the conceptual frameworks analysing internationalisation processes of the firm. This also supports the findings of Stienstra et al. (2004).

All of the case companies (or their predecessors) were established in the early years of the industry, more than a century ago. For many decades they enjoyed protection from competition serving their home markets as national monopolies in most or all of their business areas. First international activities included co-operation with other national telcos from other countries. However, this was limited mostly to bilateral and multilateral interconnection negotiations and other friendly co-operation activities, such as cable systems and/or satellites.

**Figure 11-1 Phases in the Internationalisation Process of SMOPEC Telcos**



The first phase of internationalisation with outward operations, *the Learning Phase*, started in the 1960s/1970s, and accelerated in the 1980s. As discussed throughout this chapter, during this phase the internationalisation patterns deviated from those predicted by

traditional theories, especially with regards to market strategies. That is, mainly target markets with long cultural, economic and/or geographical distance from home markets<sup>116</sup>. However, with regards to their operation strategies the companies entered international markets incrementally. This was made possible by adapting their product strategies from asset-based/location-bound services to hard-services and/or object-based services, and transhuman exports. These early operations provided learning and an opportunity to gain international experience without taking unnecessary risks, thus supporting the stages models with regards to product and operation strategies.

During the *Opportunistic Phase*, starting in the 1990s, the case study companies entered international markets with more committed operation modes, such as minority investments/JVs and, in some rare cases, in full-ownership modes. During this phase the target market selections and product strategies were very opportunistic with no clear patterns<sup>117</sup>. Markets varied from close neighbours to countries with very long psychic distance, often also in other continents, the emphasis being in the latter types of markets rather than in the former. Products in international operations varied from traditional telco products (fixed-line/mobile/data) to paging services to TV and radio stations to goods (telephones, PBXs) to IT services to directory services to online services and applications. In the end of *the Opportunistic Phase* the case companies also invested aggressively in international data networks and/or 3G licences and/or born global types of operations.

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<sup>116</sup> It must be noted that many of these projects were based on governments' foreign aid to developing countries. Thus, the risks and uncertainties for the telcos were relatively limited. This issue seems to further emphasise the important role of governments in the internationalisation processes of telcos. Also, the role of the host governments and regulation was significant, as discussed in the previous sections.

<sup>117</sup> For example, as discussed in Chapter 10, Telstra acquired interests in an Indonesian fixed-line business, satellite and data services company in Thailand, a rural telecommunications operator in Poland, and also had some operations in India and Vietnam, but they also established a full-service subsidiary in New Zealand. Soon they also acquired full ownership of a mobile operator in Hong Kong. Telia invested in mobile and fixed-line operators in the Baltic States, and in many Latin American and African countries, but also established/acquired subsidiaries in Denmark and Finland. Sonera invested in joint ventures in both mobile and fixed-line operators in the Baltic States, and in data services and mobile operations in Russia. In addition it invested in mobile operators in Hong Kong, Hungary, Lebanon and Turkey. SingTel acquired shares in a full-service operator in the Philippines, mobile operators in Belgium and Norway, and in cable-TV operators in Sweden and the U.K. Soon they also entered into equity partnerships with mobile operators in Thailand and India.

This very opportunistic phase was based on the need to achieve first mover advantages in an industry with network externalities, oligopolistic structure and the overall competitive situation. Also, several other factors discussed earlier in this chapter influenced the market strategies of the case companies, as illustrated by the comments in Table 11.23<sup>118</sup>.

**Table 11-23 Comments discussing opportunistic internationalisation strategies**

Sonera	It was favourable [time]. The world and Europe were changing. The Soviet Union was collapsing. We lived in a shifting economy. Quite often strategies are 'made afterwards', or at least named afterwards. Then the opportunistic strategy was developed. To utilise the industry shift. The name was invented afterwards.	
Sonera	There was no common plan or strategy that we should enter exactly into these markets. Usually there had opened a market opportunity, which we then started to compete for, sometimes in a very short notice. (Pekka Vennamo, CEO of Sonera Oy, in Turpeinen (1996, pg. 132).	
Sonera	Our internationalisation has been opportunistic. There has not been a situation that we would have tried to cover the whole map.	
Telstra	And in fact it was the connections that those guys had that have developed a lot of the opportunities that we've had. And we continue to invest in those, in terms of ongoing contact with local incumbents and a local operator. Constantly with a view to seeing whether there are any opportunities for us to invest in those countries where we can get obviously more than just simply a service fee kind of a return. The thing that always drove me was that if we're going to ... intellectual property then I want to have an intellectual property type return.	
Sonera	USA (Sonera's investments in the US GSM operators Aerial and Powertel) was Relander's [excellent] idea, which worked well. It was an opportunistic view, that the US was behind [in the development of mobile communications] and that there were no differences in standards [between the US and Finland].	On successful financial investments in the US
SingTel	Started in 1988, the first stage was on a 'by opportunity' basis. We took opportunities as they came along and were very keen, very eager because there were not many opportunities to come by really because the markets generally were not opened up. So when somebody offered us a Mauritius paging company we took it. Somebody offers us Cambridge cable TV, we take it. Somebody gives us Stockholm's cable TV, we also invest in it. So we invested in everything. When we look at the results, it's not very good	
Sonera	So the thoughts were that let's start with these and then look at how it all goes. And they started well, although it was like shotgun [tactics].	
Sonera	If we start from the very first internationalisation activities, when we entered the Baltic States, we did not have any strategy then. It was very opportunistic and had its roots in the developing aid projects what we had run through different UN organisations in Asia, Africa and elsewhere. We exported knowhow and helped local firms to develop.	
Telstra	Our regional partnership projects include mobile telephony in India, Sri Lanka and Hong Kong; infrastructure development in Indochina, the Indian subcontinent, Kazakhstan, Russia Far East, Indonesia and nine Pacific island nations; and a satellite technology development agreement with China's Academy of Space Technology. (Telstra Annual Report 1995, pg. 36)	

By the end of 2000 and early 2001, the general market sentiment deteriorated significantly. This also resulted in changes in the internationalisation of the case companies<sup>119</sup>. Thus, *the De-internationalisation Phase* was in clear contrast to the irregular, opportunistic and even aggressive strategies in phases one and two. In many areas the processes were reversed, as the case companies started to focus on their core competences and on markets close to home, resulting in divestments of several of their earlier investments.

<sup>118</sup> For example, the competences developed in the advanced home market contributed to the product cycle type of internationalisation pattern to the developing countries and at the same time challenges due to high-capital intensity limited entries to large developed and mature markets.

<sup>119</sup> Partly the timing of the most active de-internationalisation activities varied between the case companies, as also discussed in section 11.5 on differences between the case companies. SingTel had its first de-internationalisation phase already in the 1990s, whereas, partly due to its strong back up by the Government of Singapore, was less affected by the financial markets, thus also not required to divest as significantly as the other companies. For Telstra the de-internationalisation phase started later than for Telia and Sonera. This may be attributed to its relatively stronger financial resources, as it was not engaged in the expensive 3G auctions in Europe. In spite of these small differences with regards to timing, the overall patterns for all case companies were similar.

Most new investments to distant markets were frozen. These de-internationalisation developments were different from the more deterministic and linear processes that most traditional process models suggested<sup>120</sup>. With regard to market strategies the focus was now on the home continent, or even more narrowly defined home region, such as Northern Europe for Telia. The era of globalisation was over, at least for now, and the case companies became regional. Also, their product strategies became more focused; for example, on mobile communications in some new high growth markets, although the case companies still remained as integrated full-service operators in their home and close neighbouring markets, rather than becoming pure niche companies with focus on just one business area. Comments by some of the interviewees in Table 11.24 below highlight these issues.

**Table 11-24 Comments on de-internationalisation developments**

Telstra	12 months later and we had the tech crash. And that of course brought everyone back to earth, both in terms of valuations of underlying businesses and also the prospects of those businesses. And in fact over the time that I've been here you've really seen the prospects of those businesses shrink, to the extent to which the submarine cable business was frankly under serious financial distress. Because a lot of those markets were, in those days, quite under developed. Since then they've really exploded and moved on a pace. But you know, we have been very active in terms of looking at various businesses but in fact over time have sort of pulled back from that effort and felt, as you saw, around about, probably about April last year, we've been ... that we would pull back from further international expansion. We did build up a huge amount of potential value in the company. That's probably been dissipated over the last twelve months as we've pulled back from international activity. Some people have moved on and gone on to do other things.	About the significant turn in Telstra's internationalisation strategies
Telstra	We set up this international business and that again ran its course and was concluded about 18 months ago.	
Telia	No new businesses are coming up (at the moment), but we have good existing businesses. We stick, build value, and sell. We are downsizing the organisation now.	About the change in Telia Overseas' activities
Sonera	And then we had this restructuring phase. First we were able to save the company from going bankrupt and then we were able to achieve a state in which we were able to continue forward. When the top management changed we started 'cleaning' right away. We sold businesses and units that did not fit the new core strategy and to limit as much as possible all additional investments into 3G licences et cetera. That is, it was a phase of retreat, in which we wanted to save some parts of the company as viable. We made both the restructuring plan and the growth plan at the same time. Then we developed the strategy that we then started to implement in the East. That is, to turn our minority investments to majority ones. Then in the geographical areas in which the basic GSM business was still growing, we were able to integrate them with our core competences [when the were majority ownerships].	Sonera's survival battle and significant restructuring and de-internationalisation following the 3G licence auctions.
SingTel	So we begin to have a pattern that we want to invest, which means we would focus only regional rather than global and we also focus on certain products, not everything	
SingTel	Starting from 2000 we moved into the third phase and we had a clear portfolio of what kind of investments, joint ventures we want to do. Basically I think we did three things: mobile, internet, and data. With regards to geographical coverage we only looked at the footprint in Asia/Pacific.	
Sonera	It seems now that the pace of internationalisation has now stopped for a few years. At one phase [the general sentiment was] that there will be [only] a few large telcos in the world. But I don't know. The signs, nobody has talked about that anymore. It is very difficult to see [that happening].	
Sonera	Significant change came when the CEO changed. When Koponen started. At that time the situation of the company has changed. The significant investment in Germany's 3G had been made. Then internationalisation was stopped almost totally. Then we announced that Sonera would focus on its home markets. We focus on domestic markets and international investments, more or less, are not accepted. We don't wait anymore to see if they will develop into something. The [operations] which have customers and are up and running at some level, such as Zed, they of course were kept active. But in all other cases, the smaller subsidiaries were closed down and people were called back to home. The 'One Sonera' project was that everything was consolidated back together	
Telstra	We have been very active in terms of looking at various businesses but in fact over time have sort of pulled back from that effort. We pulled back from further international expansion.	
Sonera	We came back with 'blood in our head' from our (global) service businesses, Zed and SmartTrust.	

<sup>120</sup> Note that some studies on internationalisation processes have also reported remarkable de-internationalisation activities (Welch and Benito, 1996), as briefly discussed in Chapter 2.

In the last phase, *the Maturation Phase*, the case companies started to look slowly for new growth opportunities, but this time growth was focused mostly on new investments in their own region, in neighbouring countries, and to increase their ownership shares in their existing investments. Their organisation strategies adapted elements from transnational ones. They started to look for and gain synergies across their regional country organisations. This became possible as differences between different country organisations declined and operational and managerial control became easier due to increased ownership shares. Moreover, the overall internationalisation patterns became more gradual, and closer to the patterns suggested by traditional process theories. Examples of this phase were Telia's and Sonera's merger to form a multi-country telco in Northern Europe; SingTel's closer integration of many of its activities with its largest subsidiary, Optus in Australia, and also closer integration between its' other regional joint-ventures; and Telstra's acquisition of 100% of Hong Kong CSL and TelstraClear. However, in spite of this closer integration, the individual country organisations of each case company maintained their domestic company names and brands; that is, in many areas multidomestic strategies prevailed, instead of them moving towards more integrated and global-type of strategies.

Whereas the first two phases included some very global aspirations and strategies, and attempts to implement global focused niche-based product strategies with some of the operations, recently the case companies have implemented much more regional strategies. They have remained mostly regional players with integrated product strategies benefiting from economies of scope advantages when providing fixed, mobile and data services, especially in their home markets, and they have also remained vertically integrated with regards to their network ownership and service operations, rather than becoming virtual network operators.



## **11.5 Differences between the Case Companies**

Although all of the case companies share many characteristics and represent incumbent telcos from SMOPECs, there are also some differences that should be acknowledged.

Singapore, although a very developed country today, as already discussed in Chapter 7, is relatively young as an independent nation and until recently used to be classified as a Newly Industrialised Country (NIC)<sup>121</sup>. There are arguments that Singapore as a country is government-run, but on the other hand it has been ranked as one of the most open economies in the world. As demonstrated by some of the case data, the close relationship with the Government and Singapore's politics of nation-building have had a large influence on SingTel's internationalisation. There are some earlier research findings (for example, Pangarkar and Lim, 2003) that argued that due to very short development period Singaporean firms lack management talent and international experience. On the other hand, their closeness with other Asian countries with Chinese-background population may have helped them to overcome some of these obstacles. In addition, in spite of the lack of Singaporean MNEs to follow internationally, Singapore has managed to establish itself as an Asian hub for more than 6000 MNEs, thus positioning SingTel very well with regards to its B2B operations<sup>122</sup>.

Finland and Sweden were both the most developed countries in the mobile communications industry<sup>123</sup>. Their pioneer position in the sector contributed significantly to the competences of their firms at the early phase of their internationalisation, especially in mobile communications, but also in other areas of the telco sector. It could be argued, that when compared with Australia, for example, these two countries had a competitive advantage

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<sup>121</sup> Thus, their history in targeting developing countries with consulting operations is shorter than for the other case countries/companies.

<sup>122</sup> Singapore's central location in Asia has been one favourable factor in its attractiveness as a regional hub for MNEs. The Government of Singapore has been very active in developing its economy and infrastructure, including the operations of SingTel.

<sup>123</sup> As already mentioned earlier, the Nordic countries together developed the world's first and most advanced cross-border mobile network, NMT, in the early 1980s. In the 1990s Finland and Sweden were for several years the top countries with regards to mobile phone penetration, and two of the world's largest mobile communications manufacturers, Nokia and Ericsson, are from Finland and Sweden, respectively.

in mobile communications, even though also Australia was a relatively advanced country on a global scale<sup>124</sup>. Thus, it could be argued that as a result Sonera and Telia were able to enter into more international markets than Telstra.

With regards to B2B operations, although in the early 1990s Sonera was considered one of the pioneers in data communications, it was not able to really grow its business, as it was targeting mostly domestic MNEs, and as a telco from a small country this customer base was very limited. Although all of the case companies faced similar challenges, for Sonera this issue was perhaps the most relevant. As mentioned above, Singapore was able to benefit from its central position as a regional hub in Asia, whereas Sweden and Australia were already larger countries than Finland, thus also having more domestic-based MNEs<sup>125</sup>.

As discussed earlier in this chapter, the strategies of the companies varied somewhat, although mostly the patterns were very similar. It could be argued that mostly because of the above mentioned issues with regards to domestic MNEs, Sonera was less active than others in building and developing their carrier network business. On the other hand, perhaps due to Finland's position as the top country in the world in mobile communications, even beyond Sweden in some areas, Sonera was the most aggressive of the case companies in bidding for 3G licences. At the time of the 3G auctions, Sonera was heralded by many as a model for a modern era telco.

With regards to the government's role, it could be equally argued that Sweden and Singapore kept tighter control of their telcos, and of the telecommunications market, than

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<sup>124</sup> As mentioned by one of the interviewees, Telstra was a fast follower and an adaptor of technology, rather than a pioneer. See also Appendix 10, which shows that although ranking well in competitiveness index, Australia has clearly been behind these three other countries with regards to telecommunications indicators, such as the Network Readiness Index, and both fixed telephone lines and mobile cellular subscribers per 100 inhabitants. Also, Australia's telecommunications prices were 20 to 40 percent higher than Finland and Sweden, the best performers among the OECD countries. Most of this price difference was addressed to be based on the level of competition (that is, countries who had been early in facilitating competition had the lowest prices) and only a small part was based on issues such as physical operating environment (Australian Government Productivity Commission, 1999)

<sup>125</sup> Relative to its size, Sweden has a considerable number of MNEs. This was also one of the main reasons for the establishment of Unisource alliance. Australia is the largest of the four countries, although it needs to be noted that it has relatively fewer manufacturing MNEs, companies that usually internationalise actively.

both Finland and Australia<sup>126</sup>. However, with regards to internationalisation, in the long-run Telia and SingTel seemed to have been more successful than Sonera (who was effectively taken over by Telia) and Telstra (who retreated from most of its international markets)<sup>127</sup>. Thus, it could be argued that government support provided further financial resources, for example, stronger domestic cash flow, but also encouraged more conservative and prudent management<sup>128</sup>. However, in spite of relatively tighter government control among the case companies, on a global level both Sweden and Singapore were very advanced and relatively open telecommunications markets. That is, the government ownership did not seem to be a significant limitation, as long as the overall development level of the domestic telecommunications market was high on a global scale.

Australia's position as the largest of the four countries, with regards to both population and geography, and also as a peripheral country far from the largest markets in the world, may have contributed to Telstra being a relatively more diversified company than the others. That is, when there are more opportunities in the home market (larger consumer base), and on the other hand also more barriers to enter international markets (geographical distance), this may encourage product strategies that are relatively more diversified<sup>129</sup>. This is

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<sup>126</sup> For example, Telia was not listed until 2000, and even then the Government maintained more than 70 per cent ownership. SingTel was listed first among all the case companies, but the Government maintained relatively tight control of the company and also with regards to some of the competitive issues. For example, in 1992 SingTel was still granted a 5-year monopoly in cellular services and the whole telecommunications market was not opened to full competition until 2000.

<sup>127</sup> It needs to be noted, that Telstra had a very strong financial position. For example, in 2002 it was the only telco in the world for which credit ratings were upgraded by Standard and Poor's (Agence France-Presse, 4 Aug 2002). That is, it did not face similar challenges to Sonera, which was engaged in costly 3G auctions. This may also have contributed to the fact, that Telstra started its de-internationalisation phase slightly later than, for example, Telia and Sonera. However, in spite of its strong cash flows and financial position, Telstra was still facing strong pressures in financial markets not to invest internationally, but rather pay larger dividends to its shareholders.

<sup>128</sup> It could be argued that both SingTel and Telia were less affected by the requirements and pressures from financial markets with regards to their internationalisation. On the other hand, many of TeliaSonera's successful growth investments today were originally made by Sonera. Also, some of the interviewees from Telia emphasised that many successful overseas investments were resisted by the Swedish Government and politicians, and labour unions created some challenges – indicating that for the case companies, at least, there has been a fine balance between the constraints of government ownership versus free financial market pressures.

<sup>129</sup> Telstra never went as far with divestment strategies than the other three case companies. For example, it still owns 50% of FOXTEL, Australia's largest pay TV operator and 100% of Sensis Pty Ltd, its directories subsidiary.

in line with the propositions in this thesis, and although there is still a strong case for Australia to be included as a SMOPEC, these differences need to be acknowledged.

Other issues that could be relevant are Australia's and Singapore's history as Commonwealth nations, and English as their native language, although most of the case data, including several comments by the interviewees, put relatively little emphasis on cultural factors and language. Perhaps the main reason for this is that negotiating partners for the case companies in international markets were governments and companies rather than consumers, resulting in English being the language used also for Telia and Sonera. Also, Sweden's and Finland's location in Europe, and as members of the EU, could have influenced some of the internationalisation strategies, although the findings with regards to market strategies indicate the opposite.

## **11.6 Summary**

In this chapter the internationalisation strategies of the four case studies were discussed using a cross case-analysis. The propositions were discussed and compared with the case data. Some unique internationalisation patterns were identified and factors influencing these strategies were explored. Four separate phases in the internationalisation processes of the case companies were identified. Finally, differences between the case companies were discussed and acknowledged.

In the next chapter the conclusions from the research will be drawn and recommendations for managers, policy makers and researchers will be presented.

## **12 Summary, Recommendations and Conclusions**

### ***12.1 Introduction***

In this chapter the findings of the thesis are summarised, implications for theory and recommendations for managers, policy makers and researchers discussed. Also, limitations of the findings are acknowledged.

### ***12.2 Summary of the Main Findings***

The key findings of this study demonstrate that although in several areas the case study companies followed processes suggested by traditional internationalisation theories, there are also significant deviations. This is most obvious when analysing market strategies. For example, the psychic distance paradox was strongly supported. To some extent the findings support earlier research on service industries, although there seems to be characteristics distinctive only to the telecommunications industry, or more generally, to network industries. Furthermore, the internationalisation processes of the case study companies have not been linear: the pace of internationalisation has varied substantially over time and de-internationalisation decisions have been common.

Also, the findings support earlier research in that special challenges that companies from SMOPECs face in their internationalisation influenced their internationalisation strategies. Interestingly, in addition to these special challenges, the findings suggest that there are areas where these types of companies may have a competitive advantage in relation to their internationalisation.

When entering international markets the case companies adapted their product strategies from those that they had implemented in their domestic markets. It could be argued that by targeting international markets first by selling consulting (know-how), hard-services/object-based services/online services, and even goods, they were able to overcome many of the challenges that are linked with the internationalisation of asset-based services and location-bound services, and more generally, system sales. It could be argued that this

new insight into the adaptation of product strategies is especially relevant to SMOPEC telcos, or service MNEs from SMOPECs more generally. In the long run, however, niche-based strategies did not seem to be very successful for the case companies. Thus, the further their internationalisation proceeded the more the strategies resembled those of their domestic ones; that is, being mostly integrated product strategies.

With regards to their operation strategies, opposite to some of the propositions but following the logic of their product strategies, the patterns were incremental. The (service) characteristics of the industry suggest committed entry modes early. However, the case companies implemented alternative strategies, especially at the early phase of internationalisation: transhuman exports (consulting projects), investments in minority JVs, and involvement in strategic alliances. This was partly expected due to the challenges faced by MNEs from SMOPECs and due to some industry specific factors, such as regulation. Overall, these findings demonstrate a close link between product and operation strategies. In one specific area of operations, strategic alliances, the development has been reversal, rather than linear.

As mentioned earlier, the greatest variations occurred in the market strategies of the case companies, as the role of psychic distance was relatively small. In most cases even the psychic distance paradox was supported. However, the longer the development proceeded the more traditional were the market strategies. For example, at the later phases of the processes the findings strongly supported the theories on regionalisation. When analysed more closely, and the psychic distance factor disaggregated, its predictability improved significantly. At the later phases of the internationalisation processes, after the most opportunistic phases, the role of geographical distance seemed to especially become an important factor, more so than, for example, cultural distance. This also supports the studies discussed in section 2.4.3 (Dow, 2000, Evans and Mavondo, 2002, Tihanyi et al., 2005).

With regards to their organisation strategies the case companies, expectedly, followed multidomestic strategies. More recently some of the case companies have adopted some transnational types of characteristics which, it can be argued, fit especially well with MNEs from SMOPECs. Over time it became apparent that the case companies were not able to combine successfully the more traditional businesses in line with multidomestic/transnational organisation structures with those of their niche-based global businesses<sup>130</sup>. The gap between the business logic and organisational cultures seemed to be too wide.

Finally, during the analysis four different phases of internationalisation were identified and in each of these some unique patterns of the internationalisation process were recognised, including reversal phases. These were the *Learning Phase*, the *Opportunistic Phase*, the *De-internationalisation Phase*, and the *Maturation Phase*. As discussed, each of these phases varied at some level from the incremental and deterministic phases identified in some traditional internationalisation process models. The strong role of deregulation/regulation as a factor in these developments was expected, whereas the role of financial market pressures, the industry growth, and the strong role of individual CEO's persona and vision, were perhaps greater than most previous studies have emphasised.

With regards to their B2B strategies the case companies followed strategies similar to other B2B services. They entered lead markets/developed markets relatively rapidly with committed operation modes. It needs to be noted, though, that for SMOPEC telcos this strategy may create some challenges, as relatively fewer MNEs have their HQs in SMOPECs.

As discussed throughout the paper, MNEs from most small countries face similar challenges: relatively small domestic markets, limited resources, and often being second-tier companies, especially in capital-intensive sectors dominated by large country MNEs.

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<sup>130</sup> As was discussed earlier in the study, it is important to understand that global market strategies are not necessarily the same as global organisation strategies. That is, there can be regional organisations with regards to market strategy, but still implementing "global" standardised organisation strategies. It could be argued that there is a need for a more specific definition in a situation in which the market strategy is regional, but organisation strategy 'global' (that is, regional 'global' strategy vs regional 'multidomestic' strategy).

Interestingly the findings also revealed some factors that may contribute to a competitive advantage for SMOPEC telcos. The role of government in the sector has emphasised political and security issues, creating a situation in which SMOPEC telcos can be perceived as less threatening, and thus more attractive partners and/or investors in a host country's telecommunications infrastructure. Also, the fact that SMOPEC telcos are often required to internationalise early results in less lateral rigidity towards internationalisation, and perhaps also a better approach and fit to implement a truly transnational organisation strategy that includes an active input from its different country organisations.

### ***12.3 Implications for Theory***

Overall, the internationalisation processes of the case companies supported contingency theory/context-specificity. It needs to be noted, though, that there was clearly support for incremental processes, psychic distance and lateral rigidity in a *ceteris paribus* situation, unlike in some other studies on services. In spite of this, in several situations and over different development phases the internationalisation processes of the case companies varied significantly from incremental/traditional processes. For example, the role of psychic distance was often overridden. Several factors were identified that contributed to this development. Thus, it is recommended that any analysis of the internationalisation processes of a firm would pay attention to these factors. For this purpose the integration of the more generalisable international business models originating from economic and marketing theories with strategic management theories, which places more emphasis on environmental circumstances and the influence of managerial actions, provides a good basis.

In essence, this study has done exactly this. The traditional internationalisation process theories provided the basic assumption of incremental internationalisation, whereas strategic models provided a systematic approach to analyse industry specific and company specific factors. The latest findings from globalisation/regionalisation research contributed further to the overall environmental analysis.



Moreover, it has been demonstrated that specific research on the internationalisation of services is required; for example, on service characteristics and their role in the internationalisation of a firm. This issue was emphasised in this study and illustrated through the case data, as the product strategies of the case companies interchanged significantly with their operation and market strategies, thus becoming factors in the internationalisation processes themselves. Finally, research of internationalisation strategies needs to pay attention to the home country of a firm, which was emphasised in this study by analysing the internationalisation of SMOPEC telcos.

The main contribution of this study to research on the internationalisation processes of a firm has been to illustrate the need to integrate the abovementioned research areas through the development of the conceptual framework, the propositions and illustrative case data. The case data demonstrated at some level the idiosyncratic internationalisation processes of SMOPEC telcos, based on some predictable factors, which can be classified into five main groups: *Global Factors*, *Industry Specific Factors*, *Home Country Specific Factors*, *Company Specific Factors*, and *Home Country Specific Factors*. In addition, some new findings were also revealed. In short, the conceptual framework helped to analyse and understand the international *product*, *operation*, *market* and *organisation strategies* in an industry.

By providing new information about the internationalisation processes in an industry, with some deviations from the traditional models, the conceptual framework and the research findings contribute to the development of a more comprehensive grand theory of internationalisation, including service and manufacturing companies.

#### **12.4 Implications for Managers**

The main implication for managers of the research findings is to increase their understanding of the different alternative international strategies available and the different factors that can have an influence on these strategies. The conceptual framework developed in this study provides a systematic tool to analyse these issues and the dynamics between the

different sub-strategies and the different groups of factors. Some more specific and important implications are discussed below.

First, it is important to understand how different business logics between different industries influence their internationalisation strategies. For example, globalisation developments that emerged in the 1980s and 1990s are not as relevant for all companies, especially for companies in service sectors and for most SMOPEC companies. For instance, economies of scale advantages for telcos are mostly local rather than global. Also, in most services geographical distance seems to play an important role. This, a significant finding that regional market strategies, instead of global ones, are the most feasible solution for most telcos, especially for SMOPEC telcos, applies arguably to most service MNEs from SMOPECs more generally.

Second, managers need to be open to new business models, rather than imitate automatically the traditional internationalisation models and strategies. A critical finding that the case companies adapted their traditional/existing domestic product strategies can provide an innovative means to overcome some significant challenges in service sector internationalisation, especially at the early phases of the process and for service MNEs from SMOPECs.

Third, it is important to understand the logic behind the psychic distance paradox. If the analysis of an industry indicates the existence of a psychic distance paradox, then managers should not hesitate to internationalise unconventionally with regards to their market strategies. The case studies in this thesis clearly demonstrated that most of the successful entries were in markets with long psychic distance, whereas many entries to close markets were insignificant or failures. Also, when analysing psychic distance it is often useful to disaggregate the model to sub-factors, such as geographic distance, business distance, cultural distance and language to improve its applicability. In the telco sector geographical distance plays an important role, as already discussed, whereas cultural distance less so.

Fourth, internationalisation often proceeds in different phases over time. Thus, it is important to recognise these phases and the factors contributing to their existence, rather than to automatically ‘follow-the-herd’ in the industry, for example, because of financial market pressures. As discussed in Chapter 4, being different is often defined to be the essence of a successful strategy (Wernerfelt, 1995, Porter, 1996). By understanding different phases in internationalisation and the factors influencing them, companies can identify alternative strategies that result in a competitive advantage in the long-run. The case studies demonstrated that many decisions made against the general expectations proved to be very successful in the long-run, whereas some of the most aggressive entries, encouraged by the financial markets at that time, proved to be very risky, costly and even disastrous<sup>131</sup>. The benefits from internationalisation seem to be evident as long as international operations and risks are aligned with the company’s resources, an issue especially important for SMOPEC MNEs<sup>132</sup>.

Fifth, a transnational organisation strategy can be the most optimal organisation strategy for SMOPEC MNEs and result in a competitive advantage against MNEs from larger countries. In situations in which investments are spread over only a few large markets, and/or divided between developed and developing countries, and/or when most of the overseas operations are challengers with regards to their market position as compared to an incumbent position that the companies have in their domestic markets, a global strategy is not feasible. Also, the case studies well demonstrated the important potential and competences that country organisations even in developing countries can possess. To tap into these competences, including knowledge flows back to the home country, is an opportunity that can be best realised by implementing a transnational strategy. For SMOPEC MNEs with less

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<sup>131</sup> For example, SingTel’s and Sonera’s unconventional market strategies proved to be very successful (some of TeliaSonera’s most profitable international operations are based on decisions made by Sonera in the 1990s). On the other hand, Telia’s, SingTel’s and Telstra’s conservative strategies during the time of the most intensive telecom boom proved to be more successful in the long-run, than Sonera’s very aggressive strategies supported by the financial markets at that time. Also, as SingTel was not engaged in the expensive 3G auctions and was also closely linked with the Government in Singapore, it was able to maintain a relatively active internationalisation process even in the more passive and general de-internationalisation phase in the industry, resulting successful international expansion strategy in the long-run.

<sup>132</sup> This also supports Yip’s findings, discussed in Chapter 3 and throughout the thesis.

lateral rigidity and a relatively smaller resource pool in their domestic markets, this type of strategy may be a more natural option than for MNEs from the largest countries, which often push more aggressively for global strategies.

### **12.5 Implications for Policy Makers**

For policy makers the main implication arising from this research is to understand the different groups of factors influencing the internationalisation strategies of firms, and to understand better the potential industry specific differences in how companies internationalise. For example, service firms are often very different from manufacturing firms with regards to their optimal internationalisation patterns.

For policy makers in SMOPECs it is important to understand the specific challenges that SMOPEC MNEs face in their internationalisation and how the government can support this process. For example, the case data demonstrated the importance of openness, the overall development level and industry clusters, the need for a balanced regulation/deregulation environment and government support. That is, policy makers need to ensure sufficient support for domestic MNEs when they are facing intensifying competition. However, openness and competitiveness should never be undermined with overly protective policies.

An example of a possible supportive policy for SMOPEC MNEs is that successful transnational strategies require that companies invest in competency centres internationally. Policy makers should be able to understand and support this to ensure the competitive advantage of their firms in the long run. Overall, the role of government seems to be relatively greater in SMOPECs than in larger countries.

### **12.6 Limitations**

It needs to be acknowledged here that although the conceptual framework should be applicable in the analysis of the internationalisation strategies of firms in any industry, the specific findings on internationalisation strategies of the case companies are not generalisable

beyond SMOPEC telcos, although this is not to say that similar patterns would not apply to SMOPEC MNEs in network industries with similar characteristics and facing similar challenges.

Also, the internationalisation of the case companies may provide some patterns to follow for MNEs from less developed countries, which face some similar challenges. However, as the internationalisation processes of many MNEs from less developed small countries lag behind those of SMOPEC MNEs, there are probably some significant and as yet unexplained differences. For example, the development level of the home market is obviously different, and it is also expected that the role of international B2B operations would be even smaller than for SMOPEC MNEs, due to the relatively small number of domestic MNEs.

It needs to be noted as well that this study did not include the analysis of financial performance in its framework. Some comments were made about the level of success of different international operations of the case companies, but these were mostly based on the perception of the interviewees or more general views in the media. That is, the objective of this study was to illustrate the patterns of different internationalisation strategies and the factors influencing these strategies. The author acknowledges the importance of the financial performance of different operations when identifying optimal strategies in the long-run. However, partly due to the scope of the study and partly due to the fact that the financial performance of the case companies historically has been heavily influenced by the relatively large domestic revenue base and factors such as government regulation and ownership, comparison of financial performance would have been at some level artificial. However, as discussed in the next section on future research avenues, performance-strategy-process linkage in the internationalisation of telcos should be studied further, especially as deregulation developments continue.

Overall, the generalisability of the findings, similar to other qualitative studies, is based on analytic generalisation, as compared to statistical generalisability across the population in quantitative studies, as already discussed in Chapter 9.

## ***12.7 Suggestions for Further Research and Final Conclusions***

The analysis and findings of this study provide several interesting avenues for future research. First of all, the conceptual framework developed in this research should provide opportunities to test further the identified internationalisation patterns and factors with longitudinal (more information about phases) and quantitative research methods, in the telecommunications sector and in other industries with a similar business logic.

Second, it is evident that the development of value networks in the telecommunications industry or the ICT-industry is still ongoing. Interesting questions remain with regard to telcos' internationalisation in the future: what will be the successful strategies, business models, and optimal positions within the industry value network for telcos more generally, and for telcos from SMOPECs particularly? This could include an analysis of different approaches to global and regional strategies between different companies within the industry, and the vertical integration/disintegration within and across the value chains. As discussed, at least so far the developments seem to indicate that although some of the largest telcos have been implementing at some level global strategies, telcos from SMOPECs follow mostly regional network operator strategies. Some early attempts to implement global service provider (niche) strategies or to diversify their operations to global application software or content aggregation strategies have not been very successful. It remains to be seen how this situation will develop in the future. That is, are regionalisation developments just another phase in the process for telcos and will global strategies prevail in the future?

Third, research on operation strategies of telcos, especially their vertical integration vs. disintegration along the value chain, could analyse the emergence of independent service

providers in markets (for example, MVNOs in the mobile communications sector). So far they have not been able to succeed against more integrated traditional telcos. More longitudinal studies on this issue are required.

Fourth, with regards to their product strategies most telcos still seem to follow mostly horizontally integrated product strategies (although they have had some more focused periods in their internationalisation), especially SMOPEC telcos in their domestic markets. In this sense they resemble many large retail companies in their business logic. That is, they sell and package services developed by their international suppliers, and utilise economies of scope advantages. Future studies could analyse if these are the winning strategies in the future or will more focussed product strategies become (again) more successful, as they may allow more opportunities to specialise and internationalise, even for companies with limited resources. Naturally, one of the most relevant and important questions for SMOPEC telcos is whether they are able to survive as independent organisations or will the long predicted consolidation developments eventually result in a few large telcos dominating the sector.

Fifth, as for organisation strategies, the different development levels between different country markets caused, at least for now, organisation strategies of most telcos (and all SMOPEC telcos) to be multidomestic rather than global. However, it would be interesting to investigate how the situation changes when the industry matures further and the development levels between country markets is closer than at present. That is, would this result in more consolidations of telcos across national borders and more integrated organisation strategies? Especially interesting would be to investigate further the possible (relative) competitive advantage for SMOPEC MNEs more generally in implementing transnational organisation strategies. Moreover, the findings of regionalisation developments open an interesting research avenue on the typology of organisation strategies.

Sixth, as mentioned in the previous section, to include a performance factor in the analysis of the internationalisation of a firm would be very relevant from a strategic point of

view; that is, what would be the most feasible alternative internationalisation strategies with regards to financial performance for SMOPEC telcos, and for SMOPEC MNEs more generally. As already mentioned, this topic becomes more relevant the further global deregulation developments progress. The conceptual framework developed in this study should provide a model to analyse all the above mentioned topics.

In conclusion, the objective of this thesis was to analyse the internationalisation strategies of SMOPEC telcos. It was argued that there is a strong case for an industry/sector specific research on these strategies and different factors influencing them. The findings of this study demonstrated deviations in these strategies in many areas when compared to traditional internationalisation studies and many studies on the internationalisation of services, and provided important links between these strategies and several groups of factors, linking theories from international business and strategic management disciplines. The findings contribute to the research on the internationalisation of services particularly, and to international business and strategic management research more generally.



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# Appendices

## Appendix 1: Definitions of the Key Concepts

### Globalisation

The OECD (2007) defined globalisation from an economic perspective: “*The term globalisation is generally used to describe an increasing internationalisation of markets for goods and services, the means of production, financial systems, competition, corporations, technology and industries*”. Whereas Clark and Knowles (2003) included a broader view in their definition: “*The process by which economic, political, cultural, social, and other relevant systems of nations are integrating into World Systems is called globalisation.*” It seems that when analysing the internationalisation of many service companies, especially in network industries such as the telecommunications industry, it is necessary to include this broader perspective of globalisation into the conceptual framework, as often political and cultural systems play a significant role in the internationalisation of services.

### Regionalisation

Several researchers (Rugman, 2000, Bryson, 2001, Proff, 2002, Rugman, 2003b, Rugman and Girod, 2003) have argued that in spite of the dominant position of MNEs in the world economy, only a few are truly global, as most of them still operate predominantly within their home region/continent. That is, the key trend seems to be regionalism (Rugman, 2000, Proff, 2002), or semi-globalisation (Ghemawat, 2003). The main arguments supporting the push for regionalisation are, firstly, that although many MNEs may operate globally, the majority of their revenues are still generated in their domestic region (Rugman and Hodgetts, 2001, Rugman, 2003b), and secondly, that intraregional trade flows are increasing more rapidly than global ones (Rugman, 2003b). Rugman’s research (2003b, , 2003a) emphasised the need to differentiate between a regional and a global company.

Rugman’s (2000, , 2003b), Rugman and Girod’s (2003), and Rugman and Verbeke’s (2004) studies on regionalisation had their basis in the analysis of world business across three major triads, based on the concept of triad power, introduced by Ohmae’s (1985). The triads are the major regions and trading blocs: the US, the EU, and Japan, or in some cases more broadly, such as Europe as a whole, NAFTA in North America, and Asia/APAC (Buckley et al., 2001, Rugman and Hodgetts, 2001, Rugman and Verbeke, 2004). Rugman et al.’s main argument was that most MNEs operate regionally in one or two of the triads, rather than globally.

**Internationalisation process** describes a dynamic process of a firm’s entry to international markets. In most cases the longitudinal studies of international processes include analyses of firms’ operation modes and market strategies. Most of the traditional internationalisation process models have emphasised the gradual and incremental nature of the firm’s internationalisation (see e.g. Johanson and Wiedersheim-Paul, 1975, Bilkey and Tesar, 1977, Johanson and Vahlne, 1977, Luostarinen, 1979, Cavusgil, 1984, Luostarinen, 1994).

### **Psychic distance and the psychic distance paradox**

The concept of *psychic distance* is one of the key concepts of internationalisation process theories. The concept consisted of cultural and physical distance (Johanson and Wiedersheim-Paul, 1975, Johanson and Vahlne, 1977). In addition, Luostarinen (1979) introduced the concept of business distance, which included economic distance as a variable, and quite often economic factors are included in the definition of psychic distance. Psychic distance is discussed further in section 2.4.3

This concept has a central role in the internationalisation process models, as it is the major factor creating uncertainty in international operations. However, in spite of evidence of the decelerating effect of psychic distance on internationalisation processes, several studies have also reported *psychic distance paradox*; that is, a situation in which psychic distance correlates with more committed international operation modes or more rapid market strategies.

### **Value chain**

The concept of *value chain* has been widely covered in the strategic management literature, most notably by Porter (1985). A value chain arises from a company's activities and internal business processes to create value for its customers (Porter, 1985). This value chain of a company then belongs to an industry value chain or system (Porter, 1985).

### **Value networks**

The difference in the definition of value networks, when compared to the traditional definition of value chains, is that in a value network there are several entry and exit points, and that activities take place simultaneously instead of successively (Li and Whalley, 2002).

### **Network industries**

Network industries are service industries which include airlines, railways, postal services, telecommunications, utilities and the banking sector. The role of these industries in today's economies is fundamental as they provide essential services to communities and businesses. Thus, they are often strategically very important for governments.

Network industries are very capital-intensive with significant economies of scale advantages. Moreover, these industries share some special characteristics, such as network externalities and the role of government.

**Telecommunications industry** consisted traditionally of the manufacturers and network operators in fixed, mobile and data communications businesses. More recently many other companies, such as contract manufacturers, service providers, and application and content providers have emerged to be important players in the industry (see also the definition of the ICT industry).

### **ICT industry**

The convergence of the telecommunications industry with the computing and broadcasting industries resulted in a broader definition of Information and Communications Technologies (ICT). As defined by OECD: "... *ICT sector refers to equipment and services related to broadcasting, computing and telecommunications, all of which capture and display information electronically.*" (in UN Social Economic Council's Report of the International Telecommunication Union on information and communication technologies statistics, 2004).

## **Telcos**

Telco is the term for a telecommunication operator; that is, a company that provides telecommunications services such as fixed-line, mobile and data services for end-customers. Most of the traditional telcos have been government owned telecommunication companies and usually also national monopolies, or at least duopolies.

## **Born global companies**

This new type of company has accompanied traditional MNEs as players in international markets (Jolly et al., 1991, Rennie, 1993, McDougall et al., 1994, Knight and Cavusgil, 1996, Autio et al., 2000). As a definition, born global companies are small and medium-sized firms, which start their internationalisation from inception (Rennie, 1993, McDougall et al., 1994, Knight and Cavusgil, 1996). They aim to achieve a competitive advantage by spreading their sales to several international markets rapidly (Oviatt and McDougall, 1994).

## **Multidomestic (organisation strategy)**

Bartlett and Ghoshal's (1992) defined four different types of MNEs: *international*, *multinational*, *global*, and *transnational*. These depend on a company's environment and the development phase in which it operates.

Using Bartlett and Ghoshal's (1992, , 1998) classification, most traditional companies export products from their domestic manufacturing plants in the early phase of their internationalisation, and are deemed to be *international*. Later, when more adaptation and larger investments in host markets are required, companies apply *multinational* or multidomestic strategies, decentralising their decision-making and committing more resources internationally; that is, entering foreign markets with direct investments. However, as globalisation development accelerates, many companies transfer to *global* companies with standardised strategies across different country organisations, and centralised organisation forms. The fourth organisational structure in Bartlett and Ghoshal's (1992, , 1998) definition is a *transnational* company, which combines some of the benefits of a multinational strategy and some of a global one. (See more discussion on this in Section 4.6.1)

Harzing's (2000) study was based on Bartlett and Ghoshal's research, although she changed the term 'multinational' to 'multidomestic', which may actually be a better term to avoid confusion due to a more general use of the word 'multinational'. Thus, for this purpose the term multidomestic will be used throughout this study, unless it refers to a specific study in which the word 'multinational' has been used.

## **Small and open economies (SMOPECs)**

Small and open economies include countries such as Austria, Denmark, Finland, Ireland, New Zealand, Portugal, Norway, Sweden, and Switzerland, who have integrated themselves with the world economy by lowering or eliminating their trade barriers (Kirpalani and Luostarinen, 1999, Benito et al., 2002, Maitland and Nicholas, 2002b, Merrett, 2002). The broader definition includes also medium-size countries such as Australia and newly industrialised countries such as Hong Kong (Maitland and Nicholas, 2002b). Although Australia is already a medium-sized country with regards to its population, its companies face similar challenges in their internationalisation than companies from other SMOPECs (Liesch et al., 2002, Dick and Merrett, 2007). The inclusion of small newly industrialised Asian countries, such as Hong Kong and Singapore, can also be warranted based on their development levels and free economies. (See further discussion on this in Section 7.2).

## Appendix 2

<b>Factors Influencing the Internationalisation Strategies of SMOPEC Telcos (developed based on the literature review)</b>			
	<b>Factor</b>	<b>Influence on Telcos Internationalisation Process</b> + = <b>accelerating</b> - = <b>limiting</b>	<b>Specific Emphasis on SMOPEC Telcos Internationalisation Process</b> + = <b>accelerating</b> - = <b>limiting</b>
<b>Global Factors</b>	<p>Emergence of MNEs (due to other global factors)</p> <p>Globalised financial markets</p> <p>Homogeneous consumer tastes</p> <p>Developments in transportation</p>	<p>'Follow the customers', rapid establishment of B2B offices +</p> <p>Pressures for telcos to internationalise rapidly (and later pressures to divest/de-internationalise) +/-</p> <p>Not yet much evidence in research on telcos</p>	<p>Relatively fewer MNE customers located in SMOPECs – the importance of follow-the-customer strategy relatively smaller -</p> <p>Due to limited resources the pressures caused by financial markets relatively greater -</p>
<b>Industry Specific Factors</b>	<p>Nature of the product/service &gt;network externalities &gt;asset-based/location-bound &gt;high capital-intensity</p> <p><b>MARKET DRIVERS</b> &gt;opportunities &gt;(MNE customers – see global factors)</p> <p><b>COST DRIVERS</b> &gt;economies of scale advantages</p> <p><b>GOVERNMENTAL DRIVERS</b> &gt;deregulation &gt;privatisation &gt;the role of government (e.g. regulation, interconnection rules, government ownership)</p> <p><b>COMPETITIVE/ STRATEGIC DRIVERS</b> &gt;changing industry structure (e.g. from monopoly to oligopoly to competition; from value chains to value networks) &gt; intensified competition &gt;industry growth</p> <p><b>TECHNOLOGICAL DRIVERS</b> &gt;technological developments (e.g. convergence) &gt; standards</p>	<p>Limited opportunities available + &gt;'first mover advantage' + &gt;opportunistic strategies (global) + &gt;'follow the herd' reaction, an urge to capitalise the opportunities before there are none left +</p> <p>Political strategies prevail/asymmetries</p> <p>Oligopolistic strategic moves+ Largest companies successful</p> <p>Different phases in the internationalisation process +/-</p> <p>'Product cycle' phenomena + Search for synergies (e.g. alliances) +</p>	<p>Relatively high risks - &gt;need for alternative operation modes &gt;minority JVs (see proposition) &gt; strategic alliances (see proposition)</p> <p>Market strategies: Entries predominantly to developing countries (see propositions)</p> <p>De-internationalisation phases (see proposition) -/?</p> <p>Search for synergies (e.g. alliances) +</p>

<b>Home Country Specific Factors</b>	<p>Size of the domestic market</p> <p>Development level of the domestic market &gt;cluster</p> <p>The role of the home government</p>	<p>Competitive advantage + &gt;MNC head quarters/customers to follow + &gt;relatively large balance sheets and resources &gt; international FDIs &gt; unwillingness to enter in minority JVs + &gt;global organisation strategies (e.g. global brands) +</p> <p>'Product cycle' phenomena +</p>	<p>Competitive advantage - &gt;limited resources &gt; no large FDIs, but minority JVs (see proposition) - &gt;relatively few MNC headquarters/ MNCs to follow (proposition) – &gt;emphasised focus on distant and developing markets + &gt; multidomestic oorganisation strategies (proposition)</p> <p>Product cycle' phenomena +</p> <p>Not perceived as a threat by host governments &gt; attractive partners in JVs +/-/? Relatively larger role of the home government +/- /? </p>
<b>Company Specific Factors</b>	<p>Company size Company age</p> <p>PHYSICAL RESOURCES &gt;Physical networks</p> <p>HUMAN RESOURCES &gt;Technological competence &gt;Political competence &gt;Managerial competence (e.g. international experience and vision of the top managers) &gt;Marketing competence &gt;Financial competence</p> <p>ORGANISATIONAL RESOURCES &gt;Brand</p> <p>FINANCIAL RESOURCES &gt;Financial resources</p>	<p>Start with system sales and committed operation modes (see propositions)</p> <p>'Product cycle' phenomena + Political pressures – (+)</p> <p>Strategic differentiation +/-</p> <p>Pressures to internationalise + vs. limitations to internationalise –</p>	<p>Relatively smaller company sizes leads to less resources -</p> <p>Relatively smaller brand – less push and opportunities to internationalise it. - Relatively smaller financial resources (e.g. cash flows from domestic operations) &gt; less rapid and less committed internationalisation strategies -</p>
<b>Host Country Specific Factors</b>	<p>Size of the market</p> <p>Development level of the market (e.g. lead market vs. developing market)</p> <p>The role of host governments (e.g. deregulation/ regulation)</p> <p>Standards</p> <p>Competitive environment</p> <p>Stability of the country (political)</p> <p>(PSYCHIC DISTANCE and other factors are relative to a company's home market) &gt;Geographic distance &gt;Cultural distance Language</p>	<p>Higher operation costs –</p> <p>'Product cycle' phenomena + General factors such as GDP not among the most important factors +/-/?</p> <p>Entries to developing countries +/-/?</p> <p>Regional standards –</p> <p>Oligopolistic strategic moves+</p> <p>Risk levels of investments –</p> <p>Cultural risks –</p> <p>Language?</p>	<p>'Product cycle' phenomena + General factors such as GDP not the most important factors +/-/?</p> <p>Risk levels of investments --</p>

## Appendix 3

<b>Data Sources for the Case Studies</b>				
	<b>SingTel</b>	<b>Sonera</b>	<b>Telia</b>	<b>Telstra</b>
<b>Interviewees / informants</b>	Senior level managers and ex-senior level managers who have been responsible for internationalisation strategies (including ex-CEOs, COOs, Strategy Directors) (12 interviews in total) A few middle level managers and/or corporate communication personnel provided background information and material. In addition, a seminar participation in which a CEO was presenting, and some calls/emails with other ex-CEOs of the case companies			
<b>Company reports</b>	Annual Reports; Press releases	Annual Reports; Press releases	Annual Reports; Press releases	Annual Reports; Press releases
<b>Other company material</b>	Presentations; Key Lines Magazine	Presentations	Presentations; TeliaSonera World	Presentations
<b>News paper articles: local</b>	E.g. Strait Times; Business Times Singapore; Washington Post SE Asia	E.g. Kauppalehti; Taloussanomat; STT	E.g. Dagens Industri	E.g. Australian Financial Review
<b>News paper articles: global (economics and business)</b>	Factiva search (e.g. The Economist, WSJ)			
<b>Academic journal articles and case studies</b>	A few (e.g. SingTel/HKT merger)	A few	A few (e.g. Telia/Telenor merger)	A few (e.g. Telstra Clear, Telstra vs. Optus)
<b>Books or book chapters</b>	SingTel (2004) The SingTel Story: 125 years of telecommunications in Singapore	Turpeinen (1996) Sonera History  Vennamo (1999) Pekka, Posti ja Sonera  Tainio (2003) Sonera - Rise and Fall of Finance-driven Internationalisation		Australian Parliament (1996) To Sell or Not to Sell?: consideration of the Telstra
<b>Statistics</b>	ITU; TAS, etc.	ITU; The Ministry of Transportation	ITU, etc.	ITU; ACCC; ABS
<b>Other sources, e.g. Internet articles, other informants</b>	Government organisations, regulators, international organisations (e.g. ITU), vendors, competitors			



## Appendix 4: Letter to Interviewees

GRADUATE SCHOOL OF BUSINESS

xx<sup>th</sup> of Month 200X

Mr./Ms. Xxxx Xxxxxxx  
CEO/COO/Strategy Director/etc.  
Company name

**RIKU LAANTI**  
PhD CANDIDATE  
3<sup>RD</sup> FLOOR, SECURITY HOUSE  
233 NORTH TERRACE  
ADELAIDE UNIVERSITY SA 5005  
AUSTRALIA  
TELEPHONE +61 8 8303 4256  
FACSIMILE +61 8 8303 3184

Dear Sir,

### **Re: Research - Internationalisation Process of Telcos of Small and Medium Sized Countries**

I am writing to seek your approval to interview you, and possibly also a few other senior managers in your company, in support of my research into the internationalisation of national telecommunication companies from small and medium sized countries.

I am a native Finn, currently enrolled as a student in the Doctor of Philosophy degree in the Adelaide Graduate School of Management in the University of Adelaide in the general area of strategic management and international business. I commenced my research for my thesis in 2003, and I am now seeking to develop four corporate case studies examining the transformation of telecommunications companies that were essentially government-owned entities, into international companies.

As part of this research project, I have interviewed/will interview the individuals who held the position of CEO in the companies during the 1990s and into the 2000s, and other senior managers who have participated in strategic decision-making in their internationalisation process.

I would like to continue this research with a focus on the internationalisation of <Company Name>. As part of this research, I would like to interview 2 to 4 senior managers (hopefully including yourself) who have been significantly involved in decision-making in respect of the internationalisation of your company.

I would like to emphasise that the research will focus on historical time period since the internationalisation process started until today. No future strategic issues will be included in the interview. Furthermore, all the draft interview material will be sent to for reviewing prior to inclusion in my report. I am also happy to supply you with my report on the results and managerial implications when the research project is completed.

I am hoping that you will be able to support my research project. I plan to be in <Town name> on <xx<sup>th</sup> and xx<sup>th</sup> of Month> and hope to be able to have an interview with you during this time. If these dates are not suitable, I am still hoping that we may be able to organise an interview for another time.

I am very happy to answer any questions or to deliver more information in relation to my research project, including further referees' names, if needed.

I have attached a brief version of my Research Plan, Curriculum Vitae, and a reference letter from my supervisor, Professor Fred McDougall.

Yours sincerely,  
**Riku Laanti**  
PhD Candidate

## Appendix 4 b: Email to the Interviewees

### Preparing/preliminary questions for the interview

.....

Subject: Preparing/preliminary questions for the interview  
Date: xx.xx.200x  
From: Riku Laanti <riku.laanti@student.adelaide.edu.au>  
Organization: Adelaide Graduate School of Business  
To: xxx.xxxxx@casecompany.com

Dear Xxxxx,

As discussed in our previous emails, I include below some preparing/preliminary questions for the interview with Mr./Ms. Xxxx.

I am interested in <Case Company's> internationalisation process and motivations to internationalise:

- \* Why <Case Company> started its internationalisation?
- \* When <Case Company> first started to internationalise?
- \* What kind of changes have occurred in relation to internationalisation strategy over time, and why?
- \* To which countries <Case Company> has entered, in which order, and why?
- \* What kinds of operation modes <Case Company> has used in its internationalisation, and why?
- \* What has been the product strategy in international markets and has that varied from the domestic product strategy?
- \* Has the company's organisation strategy/structure changed over time as a result of internationalisation? If so, how?
- \* Does the small size of domestic markets play a role in the internationalisation of the company? If yes, how it has influenced its internationalisation strategies?
- \* Which international operations have been successful and why?
- \* Which international operations have been unsuccessful and why?
- \* Are there any other important issues that I should pay attention to in my research?

As I mentioned in my previous email, the interview will be unstructured and based on open questions. These preliminary questions will help to start with.

I am happy to answer any questions you may have at this phase.

Kind Regards,

Riku

## Appendix 5: Case Interview Questions

1 / 2

### CASE INTERVIEW QUESTIONS - SUPPORT FORM FOR A SEMI-STRUCTURED INTERVIEW

Note: These questions are designed to support the interviewer when conducting a semi-structured interview; that is, these are not meant to be given to the interviewees. Objective is that the interviewer will be able to ensure that all relevant areas have been covered, to clarify the answers whenever required, and to check out possible misunderstandings.

- 1. Could you define your company's internationalisation process (a very open question)?**
  - Phases
  - Motivations
  - Etc.
  
- 2. Could you define your international product strategy?**
  - What products (i.e. physical goods, services, systems, know-how/projects) the company has sold to foreign markets and in which chronological order?
  - Has the international product strategy deviated from that of domestic markets? If so, then why?
  - What makes the products of the company competitive in international markets compared to its (larger) competitors?
  
- 3. Could you define your international operation strategy?**
  - What different international outward operations (from home country to foreign country) the company has been using and in which chronological order?
  - What different international inward operations (from foreign country to home country) the company has been using and in which chronological order?
  - What kind of international co-operation modes the company has used and in which chronological order?
  
- 4. Could you define your international market strategy?**
  - In which order did the company enter different foreign markets?
  - Have you experienced de-internationalisation and or re-internationalisation phases? If yes, then in which countries, when, and why?
  
- 5. Could you define your international market organisation strategy?**
  - What kind of organisational structures/forms your company has had (Domestic, International, Multidomestic, Global, and Transnational)?
  - If there have been changes in international organisation strategy/structures, when and why these changes have happened?

**These questions supplement the earlier ones. Do not lead/usher the answers yourself. Start with very open questions, and then move slowly towards more directed questions only if needed.**

**6. Global factors**

- Are there any global factors that have influenced the company's internationalisation strategies? If there are, could you explain more thoroughly?

**7. Industry specific factors**

- Are there any industry specific factors that have influenced the company's internationalisation strategies? If there are, could you explain more thoroughly?

**8. Home country specific factors**

- Are there any home country specific factors that have influenced the company's internationalisation strategies? If there are, could you explain more thoroughly?
- What role has the smallness of home markets had in the internationalisation of the company?
- How important has been the role of domestic customers, or domestic markets in general, for the company's internationalisation?

**9. Company specific factors**

- Are there any company specific factors that have influenced the company's internationalisation strategies? If there are, could you explain more thoroughly?

**10. Host country specific factors**

- Are there any host country specific factors that have influenced the company's internationalisation strategies? If there are, could you explain more thoroughly?

**11. Other issues?**

- Are there any other important issues considering the internationalisation of the company?

# Appendix 6: Case Description SingTel

## Company History

SingTel's history starts from the year 1879, making Singapore one of the first cities in the Far East to introduce telephone service (Keylines, June 2004; SingTel, 2005). The first private telephone exchange, Eastern Extension Telegraph Company, was started by Bennet Pell but the company was soon bought by London-based Oriental Telephone and Electric Company (OTEC). (See also Appendix 6 b for 'History of SingTel and the Singaporean Telecommunications Sector'.)

In 1954 the local government took control of the telephone company from the British interests and the organisation was soon renamed to Singapore Telecommunications Department (STB). On the 9<sup>th</sup> of August 1965, Singapore became an independent nation when it separated from Malaysia, and STB was granted the right to provide telecommunications services by the Telecommunications Act of 1965 (SingTel, 2005). In 1974, the STB was merged with the Telecommunications Authority of Singapore, the local regulator, to form a single organisation under the name Telecommunications Authority of Singapore (SingTel, 2005). In 1982 Singapore's postal services were also merged with the organisation. As a result of these mergers, government-owned TAS was responsible for both regulating and operating telecommunications and postal services in Singapore.

In 1989 the company started to use the name Singapore Telecom in its marketing activities. In 1992 TAS was converted from a statutory board to a corporatized entity in within three units were formed: TAS, which was the industry regulator; SingTel, the telecommunications operator; and SingPost, the postal service 100% owned by SingTel.

In 1993 SingTel became a public company and was listed on the Stock Exchange of Singapore. At that time 11% of the shares were sold to investors, the rest still owned by the Government's holding company Temasek Holdings. Over subsequent years Temasek Holdings reduced its ownership share of SingTel, but still today remains as the majority owner of the company.

Historically SingTel, like most other government-owned operators, enjoyed a monopoly status and generated good profits in its domestic markets. However, the worldwide deregulation of the telecommunications industry also led to increased competition in Singapore (SingTel, 2005). Deregulation in the Singaporean telecommunications market started in 1986/87, when the sales of terminal equipment was opened. This was followed by the deregulation of the sale of mobile phone and paging services starting in 1995. In April 2000 the market was opened to full competition (SingTel, 2009)<sup>133</sup>.

Based on these deregulation developments, and combined with the small size of its domestic market, SingTel realised early that if it wanted to grow it had to enter international markets (SingTel, 2005). As Mr Lim Toon, COO of SingTel stated: "*If we just stayed (in) Singapore, there would have been no way for us to grow into a big telecommunications company*" (Keylines, March 2005). One reason for the company being corporatized, and later to be listed, was to provide more flexibility to utilise opportunities and to enter international markets more rapidly.

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<sup>133</sup> SingTel was granted a licence to operate cellular services in 1992, followed in 1995 by the second licence to Mobile One (who started operations in 1997), and a third one to StarHub in 1998 (who started operations in 2000). With regards to fixed line services, in 1992 SingTel was granted a monopoly on services until 2007, but in 1996 this decision was changed by the Ministry of Communications when it decided to allow a second operator to enter the market in 2000. After a tender process in 1998 StarHub was granted this second licence. However, the government changed their decision again in January 2000 and announced that from April 2000 onwards the telecommunications market would be open to full competition in all services. SingTel and StarHub received compensation from the Government for the early termination of their monopoly/duopoly periods.

## **Internationalisation Milestones**

In this section the milestones of the company's internationalisation are outlined (see also Appendix 6 c for chronological developments).

### International Calls, Cables and Satellites

In 1937 the first international call from Singapore beyond Asia was made to London (SingTel, 2005). In 1976 Singapore introduced International Direct Dialling (IDD) service, the same year the service was introduced in the UK and Japan (Keylines, June 2004). Over the years IDD service has supported rapidly increasing international business activities in the Singaporean economy<sup>134</sup>.

In 1965 the company participated in the South East Asia Commonwealth (SEACOM) submarine cable system, one of the first in Asia, to link Singapore to Sabah and Hong Kong (Keylines, June 2004). In 1993, SingTel became the largest investor in an Asian fibre optic cable, the APN, co-owned together with a total of 38 carriers<sup>135</sup>. Later, cooperation in many other cable systems followed<sup>136</sup>.

SingTel has also been involved in cooperative activities in satellite systems, such as INTELSAT and APSTAR to strengthen further Singapore's position as an Asian communications hub (SingTel, 2005)<sup>137</sup>.

### Other International Bilateral/multilateral Cooperation

In addition to cable and satellite systems, SingTel has been engaged in other multi and bilateral cooperation activities with incumbent telcos from other countries. For example, it has been an active member in ITU and Financial Network Association (FNA), and has been engaged in joint studies and cooperation with other telcos, such as Australian AOTC, Dutch PTT Telecom, and British Telecom.

### Consulting Projects

All of the abovementioned operations, although international, were focused on serving the needs of Singapore-based customers. A 'turning point' was reached for the company in 1988 when it decided to pursue an international expansion strategy with outward operations in international markets. It established a subsidiary, Singapore Telecom International (STI), to be responsible for its international operations (SingTel, 2005). STI started by providing consulting services (technical training, operations, and maintenance) to telecommunication administrations and companies internationally. The first project was to provide consultancy services to Mauritius Telecommunications Services, followed by projects in countries such as Saudi Arabia, Bangladesh, Brunei, China, Colombia, Fiji, Indonesia Kuwait, and Oman (Singapore Telecom Annual Report 1990/91; Keylines, March 2005)

### Opportunistic International Investments

STI also soon started to invest in overseas markets. In 1989 it bought a 5% share in MTel, a US-based global paging operator<sup>138</sup>. In 1990 this was followed by investments in the Shinawatra group of companies in Thailand. In 1991 the company invested in (52%) Lankacom in Sri Lanka; in (40%) Teleservices, a nation-wide paging operator in Mauritius; and in (30%) SkyTelindo Services, a paging operator in Indonesia. In 1992 the company invested in (50%) Cambridge Cable, a cable TV operator in the UK. It also expanded its investment in Sri Lanka through acquiring a 88.5% interest in Lanka Cellular Services and invested in (50%) Maharaja TV; and entered into cooperation arrangement with the Vietnamese Government to develop mobile phone services in the Saigon region. Also, it invested in some data-services companies in Australia.

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<sup>134</sup> The importance of IDD service for SingTel was very significant. For example, in 1990 international calls generated 50% of the company's revenues (Singapore Telecom Annual Report 1990/91).

<sup>135</sup> The APC system is the longest cable system in the Asia Pacific region (7,500 km), linking Singapore with Japan, Malaysia, Hong Kong and Taiwan (Financial Times, 7<sup>th</sup> Oct 1991).

<sup>136</sup> SingTel was involved in cooperative cable systems, such as SEA-ME-WE 2, SEA-ME-WE 3, and the Southern Cross. In 2000 it formed a subsidiary, C2C Pte Ltd, to connect several Asian countries, and in 2001 a 50-50% JV (with Bharti Group), Network i2i, to connect Singapore and India.

<sup>137</sup> These types of cooperative activities included cooperation with British Telecom International (BTI) and The Norwegian Telecommunications Administration (NTA) to develop world's first aeronautical telecommunications service (Singapore Telecom Annual Report, 1987/88) and in 1996 the launch of ST-1 satellite, in an alliance between SingTel and Taiwan Directorate General of Telecommunications.

<sup>138</sup> Together with MTel SingTel later invested in paging operators in Indonesia and Hong Kong.

The pace of the company's international investments had clearly accelerated after its privatisation in 1992. In 1993, this resulted in SingTel's thus far largest international investment (S\$155 million) and the first one in telecommunications networks, a 39% share in Globe Telecom in the Philippines. As stated by Koh Boon Hwee, Chairman of SingTel (SingTel Annual Report 1993/94):

*The licence to operate an international telephone gateway in the Philippines is a landmark as we will be providing an international telephone service outside of Singapore for the first time.*

In 1993 the company also invested in (16.7%) Netcom ASA, a mobile phone operator in Norway, in (50%) Yorkshire Cable Group, a cable-TV operator in the UK, in (50%) MBC Network, a radio station in Sri Lanka. In 1994 it acquired Stjern TV, a cable TV operator in Sweden, and with its wholly-owned subsidiary, launched paging services in Cambodia. In 1994 and 1995 the company was also actively engaged in the development of telecommunications services in several Chinese provinces<sup>139</sup>.

In 1995 SingTel entered into a 15-year contract and a JV (40%) PT Bukaka SingTel International (BSI) in Indonesia to provide fixed-line telephone services. In the same year it also invested in (47%) Fax International Inc., a US-based provider of guaranteed transmission of fax documents. Since the establishment of STI and throughout the early 1990s, SingTel's international investments had increased rapidly: by 1995 its overseas investments amounted to S\$ 1.32 billion (Straits Times, 7 Oct 1995).

### De-internationalisation Developments

In 1995 SingTel started to revise its international strategy<sup>140</sup>. It turned its focus more on its own region, Asia-Pacific, and started to re-evaluate most of its European operations. Also, it started to focus more on core products (that is, paging, cellular and fixed line networks) and divest other businesses. This shift in strategy was significant, as at that time approximately two-thirds of SingTel's investments were in Europe (Asia-Pacific Telecoms Analyst, 17 Jul 1995). This decision, together with an earlier one of not investing in US markets, seemed to be undoubtedly strongly strategic, rather than dictated by external pressures, such as financial markets. One reason for divesting non-core operations was to make the most of its existing core-investments, and to invest and focus more on fewer larger investments.

However, in spite of this new focus on Asia, the company still maintained some options in selected and focused investments in Europe. This more specific focus included investments only in core-products (telco-related) and with European or US-based strategic partners. These plans were realised in December 1995 when the company invested S\$930 million in a venture (12.5%) Belgacom, a full-service incumbent telco in Belgium<sup>141</sup>. This was clearly the largest single international investment by SingTel thus far. SingTel then announced that it would be its last major investment outside the Asia-Pacific region. In Jan 1997 Allen Lew, COO of STI explained (Reuters News, 20 Jan 1997):

*Our focus on the Asia-Pacific means that we would not be aggressively pursuing opportunities nor embarking on strong business development efforts outside of the Asia Pacific.*

Rather, it aimed to be engaged in 'Belgacom-type' deals in Asia; that is, investments in the hundreds of millions rather than in the tens of millions. This was necessary to reach the ambitious aim that SingTel had of increasing the profits generated by international activities to 20% of total profits by 2000.

This shift in strategy resulted in de-internationalisation developments. In 1995 and 1996 the company divested its ownerships in the UK cable-TV companies<sup>142</sup>. In 1998 it divested its shares in Sweden cable and, in 1999, in Netcom in Norway. Finally, in 2000 it also sold its share in Belgacom (earning a good profit). It had now divested all of its major investments in Europe. The focus of the company had moved fully to the Asian region.

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<sup>139</sup> China prevented international companies from operating telecommunications services in China, but allowed consulting, construction and equipment supply. SingTel's projects and investments in China included developing, building and financing telecommunications networks in the Shanghai region, a JV (49%) with a local state-owned telecommunications equipment manufacturer, Zhong Shan Group, to develop and build a GSM network in Suzhou (China Unicom will operate the network), and an equity interest in (35%) Pacific First Star Communications Technology Co with Beijing municipal Government to build a nation-wide paging network.

<sup>140</sup> In July 1995 SingTel announced that Sung Sio Ma, CEO of STI, had resigned. At the same time the company said that it is re-evaluating its UK-based cable TV investments, rationalising its investment portfolio more generally, and focusing on the Asian region. (Asian Wall Street Journal, 13 Jul 1995).

<sup>141</sup> SingTel was one of three international telcos that invested in Belgacom. Others were Ameritech of the United States and Tele Denmark. The combined ownership of these three telcos was slightly less than 50%.

<sup>142</sup> In 1995 SingTel swapped its shares in Cambridge Cable for a 17.7% share in Comcast, and in 1996 exchanged shares in Yorkshire Cable Group for a shareholding in General Cable. Later it sold all its shares in both of these companies.

Although not directly related to international strategy, the more focused (product) strategy was also demonstrated by the divestments of its shares in Yellow Pages directory business and in SingPost in 2003<sup>143</sup>.

### Failed Bids

SingTel also tried actively to invest in telecommunication networks in neighbouring countries (Malaysia and Hong Kong), but faced some significant challenges in these markets. Although it had several small investments in Malaysia (retailers / distributors / maintenance companies), it never successfully managed to invest in a network operator. In 2000 it tried to acquire a stake in Time Engineering Bhd in Malaysia, with no success. Also, in the same year the company tried to acquire (or merge with) the local incumbent, Cable & Wireless HKT Ltd in Hong Kong. However, its efforts were blocked mainly due to its controlling Government ownership structure (Asiamoney, Jun 2000).

### Focus on One's Own Region

Following the shift in its strategy, SingTel turned its focus on larger investments in the Asia Pacific region. In 1996 the company invested in (24.5%) AAPT, Australia's third largest long-distance telephone company. It also extended activities to Vietnam, entering in a project to develop a mobile phone network in Ho Chi Minh City with Ho Chi Minh City Post and Telecommunications.

In 1999 the company acquired an 18.3% interest in Advanced Info Services (AIS), a mobile phone operator in Thailand<sup>144</sup>. In 2000 the company invested in (21%) Bharti Group, a mobile, fixed-line and data operators in India, and in (18%) New Century Infocomm (NCIC), a fixed line operator in Taiwan<sup>145</sup>. The company also aimed to acquire mobile operators in the more developed Asian countries, such as Australia, Taiwan, Hong Kong and South Korea.

In 2001 SingTel made its largest acquisition ever (AUS\$14 billion) in acquiring Optus, an Australian full-service telco<sup>146</sup>. With this acquisition, the balance between domestic and international revenues changed. From this point forward SingTel would generate the majority of its revenues from its international operations. Later the same year SingTel made another significant investment, a 22% interest in PT Telekomunikasi Selular (Telkomsel), a full-service operator in Indonesia.

In 2004 SingTel's overseas investments totalled S\$20 billion, a significant increase from \$1.9 billion just seven years earlier. In 2005 the company invested in (45%) Pacific Bangladesh Telecom Ltd, a mobile operator in Bangladesh.

### Expanding to Goods and Other Services, and 'Born Globals'

In addition to international activities and investments in consulting and network services, SingTel was also active in some other types of businesses. In 1999 it established a subsidiary, SingTel Ventures, with a purpose to invest in high-tech start-ups in the telecommunications industry (thus providing access to new technologies in the industry and develop Singapore as an ICT hub)<sup>147</sup>. Initially the company allocated S\$50 million to the venture capital fund, but later increased it to S\$175 million (in 2000).. However, after the telecom bust in 2000 - 2001, SingTel Ventures divested its ownership in these types of companies (Asia Private Equity Review, 2003).

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<sup>143</sup> When SingPost was listed on the Singapore Exchange, SingTel still remained a minority shareholder with a 31% share.

<sup>144</sup> The AIS acquisition was worth S\$497 million being the first major acquisition after the decision to refocus on Asia. As a part of this acquisition SingTel sold its paging operations in Thailand to AIS.

<sup>145</sup> Later SingTel increased its ownership in NCIC to 24.5%, and in 2007 changed these shares for a 4 per cent ownership in a Taiwanese mobile phone operator Far EasTone.

<sup>146</sup> Optus (later SingTel Optus Pty Limited) became a wholly-owned subsidiary of SingTel.

<sup>147</sup> These included investments globally, such as shares in NASDAQ-listed companies including CommerceOne, Efficient Networks, InterTrust Technologies, and NewsTakes (a 15% share in a content provider to wired and wireless services) and in Singapore, such as a 24% stake in Airgateway.com Pte. Ltd. (a 'wireless access protocol search engine and applications provider' targeting Asian markets), a 30% share in NewsPage (a software integration company), a 25% stake in HospitalityCity Pte Ltd (a B2B E-procurement system provider, who's customers include major global hotel chains), Lycos Asia Singapore (which aims to develop its business model in Singapore and expand it to other Asian markets, such as Lycos Korea, a JV in Korea) , and eGlobal Technology (an e-Business software provider targeting the Asia-Pacific region)



## B2B offices

With regards to their B2B operations SingTel first entered the largest and most developed markets. This included the establishment of liaison/B2B offices in the US and the UK in 1993, in Sweden and Hong Kong in 1994, and in several other countries / leading business centres during the following years. A statement by the CEO of SingTel, Lee Hsien Yang (Keylines, Jan-Feb, 2005) described this strategy well:

*In order to serve (sic) our global customers even better, we have been expanding our overseas presence to provide better in-country support. Our new offices in Hyderabad and Los Angeles have increased the number of our global offices to 34, located in key cities worldwide.*

The company was active especially in the Asian region. As stated by SingTel's senior vice-president for global services Lim Shyong (Business Time Singapore, 29 Aug 1998):

*We've done a survey recently among MNCs in Singapore and they said they'd like SingTel to serve them regionally with a 99.9 per cent guarantee of quality.*

As already mentioned earlier, one of the main motivations for the company to be actively engaged in satellite and submarine cable systems was to serve its corporate customers globally. In 1997 the company acquired NCS, a Singapore based ICT engineering services provider, which focused on Asia Pacific and the Middle East region, and provided IT-services to B2B customers. SingTel's need to serve globalising Singaporean MNEs was supplemented by an increasing number of foreign MNEs that established their regional headquarters in Singapore<sup>148</sup>.

## International Strategic Alliances

Supporting its B2B strategy, the company entered into global alliances with other (incumbent) telcos. This included a small ownership in Infonet (5% in 1989), and being a founding member in WorldPartners (in 1993), an alliance run by AT&T. As the Chairman of the Board of Directors of SingTel, Koh Boon Hwee, stated (Singapore Telecom Annual Report, 1992/93):

*I see opportunities for Singapore Telecom playing a role in these alliances, particularly given our strategic location in the Asia Pacific region, which is a major growth area for the telecommunication business.*

However, these multilateral alliances were not very successful or long-lived. In 1998 AT&T announced that it would pull out of the WorldPartners alliance and enter in a JV with British Telecom, which created a need for SingTel to look for alternative arrangements for their international connections. This resulted in some smaller bilateral cooperation with other telcos. Most of them were contractual partnerships, but also some equity-based cooperation, such as with KDD in Japan<sup>149</sup>. In 1995 the company, with four other incumbent telcos, had also invested in a minor equity share in a regional alliance called Acasia<sup>150</sup>.

Later in 2004, with regards to its mobile telephone operations, SingTel initiated a regional alliance called Bridge. Most of the companies in the alliance were SingTel's associated companies<sup>151</sup>.

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<sup>148</sup> SingTel targeted European and the US-based MNEs to provide their data services in the Asian region. An example of these types of customers was SingTel's contract to manage Toyota Motor's telecommunications services in the Asian region (Total Telecom, 2003). Altogether 6000 MNEs have an office in Singapore. Many of these serve as their regional headquarter.

<sup>149</sup> SingTel and KDD, both among the original founders of the WorldPartners, announced a partnership in November 1999. They agreed to buy each other's shares, SingTel swapping 1.43% of its equity for a 5% share in KDD (Observer Station, 1999). These bilateral partnerships were required to provide the necessary connections in the countries in which SingTel did not have their own network.

<sup>150</sup> Acasia Communications Sdn Bhd was established as a regional alliance between SingTel, Telekom Malaysia, PT Indosat, Philippines Long Distance Telephone Company and The Communications Authority of Thailand.

<sup>151</sup> The purpose of the Bridge alliance was to develop roaming and other mobile services to serve each partner's mobile customers when they travelled overseas within the region. It included some minor equity investments from each partner, but not any significant investments in physical networks. In addition to SingTel's mobile associates, the alliance partners included SK Telecom from Korea and Maxis from Malaysia.

## Appendix 6 b

<b>History of SingTel and the Singaporean Telecommunications Sector</b>	
<b>Year</b>	<b>Company Event &amp; Related Event</b>
1879	Eastern Extension Telegraph Company, was started by Bennet Pell but the company was soon bought by London-based Oriental Telephone and Electric Company (OTEC)
1937	The first international call from Singapore outside Asia was made to London
1954-1955	The local government took control of the telephone company and the organisation was soon (in 1955) renamed to Singapore Telecommunications Department (STB), a statutory board with monopoly rights to provide telecommunications services in Singapore.
1965	9 Aug 1965 Singapore (Republic of Singapore) got its independence when it was separated from Malaysia (which was separated from Britain in 1963).
1965	The Telecommunications Act of 1965 - STB was granted exclusive rights to provide telecommunications services in Singapore.
1974	The STB was merged with the Telecommunications Authority of Singapore, the local regulator, to form a single organisation under the name Telecommunications Authority of Singapore (TAS) (Prior to this STB was responsible for domestic and TAS for international services.)
1976	International Direct Dialling (IDD) service was launched, with the first connections to Japan and the UK. Singapore was among the first countries in the world to launch the service.
1982	Singapore's postal services were merged with the organisation. As a result of these mergers, the government owned TAS was responsible for both regulating and operating telecommunications and postal services in Singapore.
1982	The mobile telecommunications service was introduced in Singapore.
1983	Singapore's telephone network was digitalised, being "the first country in the world to have a completely push-button telephone network" (SingTel History)
1987	The sales of telecommunications terminal equipment opened to competition.
1989	The company started to use the name Singapore Telecom in their marketing activities.
1992	TAS was corporatized from a statutory board to a private company, and as a result three units were formed: TAS, which was the industry regulator; Singapore Telecommunications (SingTel), the telecommunications operator; and SingPost, the postal service 100% owned by SingTel.
1992	TAS granted SingTel a licence for cellular phone service for a 5-year monopoly period.
1993	SingTel became a public company and in November it was listed on the Stock Exchange of Singapore. At that time 11% of the shares were sold to investors, the rest still owned by the government's holding company Temasek Holdings
1994	A digital GSM mobile service launched in Singapore (in March).
1995	Mobile One was granted the second cellular licence, effective from 1997 onwards.
1997	StarHub was granted the second fixed line carrier licence and the third cellular licence, both effective in 1998.
2000	The Singaporean telecommunications market was opened to full competition (in April).
2003	SingTel sold 60% of SingPost in an Initial Public Offering.
2003-2005	Temasek Holdings decreased its share of ownership, but still remained the biggest owner with 56.3% share in 2005.

## Appendix 6 c

<b>SingTel's Most Important international Activities in a Chronological Order (including predecessors)</b>				
<b>Year</b>	<b>Event</b>	<b>Market</b>	<b>Operation</b>	<b>Product</b>
1937	First international call from Singapore outside Asia made to London	Singapore / International / Global	Cooperation (interconnection contracts)	International call
1965 -	Multilateral and bilateral cooperation in cable systems (e.g. SEACOM, APN, i2i, C2C, Southern Cross)	Regional / Global	Cooperation/alliances (with equity shares)	Systems (submarine cables)
Pre 1970s -	Multilateral and bilateral cooperation (e.g. ITU)	Global	Cooperation	E.g. interconnection, training, meetings/assistance
1971	Satellite systems (e.g. INTELSAT, Apstar, AMSC, ST-1)	Global / regional	Cooperation/alliances (with some minor equity shares)	Systems (satellite)
1976	Singapore introduced International Direct Dialling (IDD) service (the same year it was first introduced in the UK and Japan)	Singapore / International / Global	Cooperation (interconnection contracts)	International calls
1988	Singapore Telecom International (STI) established as an international arm of the company	Singapore / Global	Subsidiary (100%)	
1988	First consulting projects by STI (within the first few years the company was engaged in projects in 18 countries)	Mauritius, Saudi Arabia, China, Fiji, Taiwan, Colombia, Indonesia, Kuwait, Oman, etc.	Transhuman exports	Know-how (consulting projects)
1989	Infonet Services Corporation (alliance with 11 major telcos)	Global	Alliance/JV (5% > 7.2%)	B2B data services
1989	MTel, a US-based international paging company	USA / Global (e.g. Hong Kong, Indonesia)	Investment (5%)	Systems/network (paging services)
1990	Shinawatra companies (e.g. Shinawatra Paging Company, Shinawatra Datacom, and Shinawatra Computer and Communications)	Thailand	Investment (40%) Investment (40%) Investment (9%)	Systems/network (paging services, goods)  Data communication services
1991	Lankacomunications Pte Ltd (Lankacom) (later, in 1992, also Lanka Cellular Services)	Sri Lanka	Investment (52%) > (Later 76%)  Investment (78.5%)	Data communication and internet services Mobile phone services
1991	PT SkyTelindo Services (a MTel subsidiary)	Indonesia	Investment (30%)	Systems/network (radio communications and paging services)
1991	Teleservices	Mauritius	Investment (40%)	Systems/network (paging services)
1992	Some small scale telecommunications/network investments in Australia ( SingCom (Australia) Pty Ltd.; National Information Networking of Australia)	Australia	Investment (89.3%)	Systems/B2B (Data services)
1992	Projects in Vietnam: e.g. Saigon Mobile Telephone	Vietnam		Know-how/systems/network (consulting: mobile phone network development)
1992	Cambridge Cable	UK	Investment (41.24%)	Systems/network (Cable TV)
1992	Maharaja TV	Sri Lanka	Investment (50%)	TV station
1994/95	Integrated Communications Sdn Bhd	Brunei	Investment (25%)	Goods (Telecommunications and IT equipment)
1993	Globe Telecom	The Philippines	Investment (39.13%) > (Later 47.3%)	Systems/network (full-service telco)
1993	Netcom ASA	Norway	Investment (16.7%) > (Later 25%)	Systems/network (mobile phone operator)
1993	MBC Networks	Sri Lanka	Investment (50%)	Radio station
1993	Yorkshire Cable Group	UK	Investment (50%)	Systems/network (Cable TV)

1993	B2B/liason offices globally	USA, UK (later following offices in Hong Kong, Sweden, Japan, France, Germany, India, Taiwan, Vietnam, the Philippines, Australia, Korea, China, Malaysia, Indonesia and Thailand.	Branch office s/ Subsidiaries (100%)	B2B services
1993	WorldPartners (alliance with 6 major telcos)	Global	Alliance	B2B services
1993	MBC Networks	Sri Lanka	Investment (50%)	Radio station
1993	Yorkshire Cable Group	UK	Investment (50%)	Systems/network (Cable TV)
1994	Stjarn TV	Sweden	Subsidiary (100%)	Cable TV
1994	SingTel Cambodia	Cambodia	Subsidiary (100%)	Systems/network (paging operations)
1994	Multi-media Communications Sdn Bhd (& later in 1997 also VA Dynamics Sdn Bhd)	Malaysia	Investment (49%)	Goods & service (Sales and maintenance of telecommunications equipment)
1994	Beijing Asia Pacific First Star Communications Technology Co. Ltd.	China	Investment (35%)	Systems/network ( building, managing and financing nation-wide paging operator;
1995	Suzhou Zhong Xing Telecommunication Engineering Development Co. (telecommunications network projects in Shanghai and Suzhou region)	China	Investment (49%)	Know-how/systems/network (building, managing and financing telecommunications networks (GSM))
1995	PT Bukaka SingTel International (BS)	Indonesia (eastern part)	Investment (40%)	Systems/network Fixed line
1995	Acasia Communications Sdn Bhd (a regional alliance with Telekom Malaysia, PT Indosat, Philippines Long Distance Telephone Company and The Communications Authority of Thailand)	Malaysia / regional	Investment (20%) / alliance	B2B networks/services
1995	Fax International Inc.	USA – Japan, South Korea	Investment (47%)	B2B Services (Guaranteed delivery transmission of facsimile documents)
1995	AAPT	Australia	Investment (24.5%)	Services/systems/network Switched and leased lines; value added services
1996	Belgacom	Belgium	Investment (12.5%)	Systems/network (full service telco)
1997	NCS	Singapore / regional (Asia Pacific and Middle East)	Subsidiary (100%)	B2B Services (ICT engineering services provider)
1999	Singapore Telecom Ventures (with investments in high-tech start-ups in Singapore and globally)	Singapore / Global.	Subsidiary (100%) investing in JVs	Venture capital investments in ICT technology and services
1999	Advanced Info Service Public Company Limited (AIS) (after acquiring AIS shares, SingTel sold its paging operations in Thailand to the company)	Thailand	Investment (18%) >(Later 21.4%)	Systems/network (mobile/paging operator)
2000	APT Satellite Telecommunications Limited	Hong Kong	Investment (20%) >(Later 56.2%)	Systems/networks (satellites)
2000	Bharti Group (including a mobile operator Bharti Airtel Limited) >Later Bharti Telecom Limited	India	Investment (21%) >(Later 30.4%)	Systems/network (mobile, fixed, data systems operators)
2000	New Century Infocomm (NCIC) >Shares later swapped to a 4% stake in a mobile operator Far EasTone	Taiwan	Investment (18%) >(Later 24.5%)	Systems/network (Full-service telco > Mobile operator)
2001	Optus	Australia	Subsidiary (100%)	Systems/network (Full-service telco)
2001	PT Telekomunikasi Selular (Telkomsel)	Indonesia	Investment (22.3%) >(Later 35%)	Systems/network (Mobile operator)
2004	Bridge Alliance	Regional	Alliance / JV (44%)	Cooperation (mobile telecommunications development & roaming)
2005	Pacific Bangladesh Telecom	Bangladesh	Investment (45%)	Systems/network (mobile operator (CDMA))

## Appendix 6 d

<b>Summary of the Internationalisation Strategies of SingTel</b>				
	<b>Product</b>	<b>Operation</b>	<b>Market</b>	<b>Organisation</b>
Domestic Phase	DIVERSIFIED (Domestic) Integrated telecommunications services in Singapore. International cable, data, telephone services targeted to Singaporean customers	COOPERATION International multi- and bilateral cooperation with other telcos (e.g. ITU) Submarine cable and satellite projects	DOMESTIC: Focus on domestic customers	DOMESTIC Domestic organisation structure
1988-	NICHE Started international operations by selling consulting services (know-how)	EXPORTS (Transhuman)	GLOBAL: Focus on developing countries (Africa, Asia-Pacific, Middle East)	INTERNATIONAL International organisation structure (STI)
1989-1995	DIVERSIFIED Systems/networks: Cable TV companies Paging systems Mobile operators Fixed line operators  Also some investments in companies providing: Directory services Software IT technology (goods)  B2B: Active investments in region-wide data networks	FDI (minority) Investments in minority JVs  EXPORTS (Transhuman, some hard-services/object-based services)  B2B and Liaison offices - wholly owned subsidiaries  Alliances (Infonet, WorldPartners)	GLOBAL: Targeting overseas markets globally: Asia-Pacific Region, Europe, the US, Middle East  Entries to neighboring countries (small psychic distance) unsuccessful (e.g. Malaysia, Hong Kong)  The first B2B offices in large developed countries	INTERNATIONAL / MULTIDOMESTIC International/ Multidomestic organisation structure  GLOBAL/ INTERNATIONAL B2B In B2B Global/ International organisation structure
1995-	MORE FOCUSED: Mobile as a spearhead. Generally focus on the core telecommunications products (mobile, data, fixed-line) in  Most significant investments in systems/networks (location-bound and asset-based services)  Continued venture capital investments in high-tech start-ups in the telecommunications industry  Later divested more non-core operations	DE-INTERNATIONALISATION: Divesting non-core operations  FDI (minority/majority) Aiming at fewer but larger investments.  FDI (majority) Aiming to increase existing investments (but not enforcing majority ownership)	REGIONAL: Focus on Asia (instead of global/Europe) - Divesting most operations outside the Asia-Pacific region  B2B Active investments in networks, subsidiaries and offices throughout Asia, and at some level in the USA and Europe)	MULTIDOMESTIC/ INTERNATIONAL More integration, but still international/ Multidomestic  GLOBAL B2B B2B: Global organisation structure
2003-	INTEGRATED TELCO PRODUCTS (Bundling): Increasing convergence of the core telecommunications services: 'bundling' of mobile, fixed-line and data services.  Divesting unrelated operations, such as directories and SingPost.	FDI Increasing ownership share in a few selected overseas investments (but not enforcing majority ownership)	REGIONAL: Focus on Asia-Pacific region – a clear regional strategy  REGIONAL/ GLOBAL B2B operations with some global features)	TRANSNATIONAL Many characteristics of a transnational organisation strategy  GLOBAL B2B

# Appendix 7: Case Description Sonera

## Company History

The history of Sonera dates back to year 1855 when the first telegraph offices were established in Finland (see also Appendix 7 b for 'History of Sonera and the Finnish Telecommunications Sector'). After Bell patented the telephone, it took only six years for Finland to have telephone companies in its major cities. In 1917, after Finland had declared its independence from Russia, the Finnish government gained control of the Russian Telegraph Service. In 1927 the Telegraph Office was merged with the Post Office and the new entity was named the Administration of Posts and Telegraphs (later Post and Telegraphs Office, PTO). In 1935 PTO received (in practice) a monopoly in long-distance calls. Although the PTO became to have a monopoly, in most of its business areas, such as international and long-distance calls, and data services, in Finland, unlike in most other countries, most of the local telecommunication services were provided by regional telephone cooperatives.<sup>1</sup>

When global sentiment towards telecommunications deregulation started gradually to change in the 1980s, Finland was among the first countries to follow this development. First, as a result of the Telecommunications Act of 1987, the sale of telecommunications equipment was liberalised. Second, in 1991 competition in international telephone calls was opened<sup>2</sup>. Mobile telephony competition opened, when Radiolinja, Tele's new domestic competitor, was granted a new GSM licence in 1990, starting the service in 1991<sup>3</sup>. The deregulation of the market continued in 1993 when several new licences were granted in international traffic<sup>4</sup>. Also, competition in long-distance calls was opened in 1994 and soon Finnet Group (a group of local telephone companies) was able to achieve more than 50% market share (Turpeinen, 1996).

The above mentioned changes contributed to a need to develop the organisation structure of the PTO. First, in 1990 the organisation transformed from a state agency to an unincorporated state-owned enterprise, with a separate budget from state. Later in 1994 it became a state-owned limited liability company, PT Finland Oy, of which Post of Finland and Telecom Finland Oy (Tele) were the two major subsidiaries<sup>5</sup>. In 1998 Tele changed its name to Sonera Oyj and later in that same year was listed on the Helsinki Stock Exchange and the NASDAQ, although the Government still maintained the majority ownership<sup>6</sup>. All these changes provided the company with more flexibility and enabled rapid decision making when compared to a state agency.

The deregulation developments in the domestic market and the company's privatisation accelerated the process in which the company transformed from a national telco to a global pioneer in internet and mobile technologies (Baldauf et al, 2001)<sup>7</sup>. As stated by an interviewee, a senior manager of Sonera:

*When the organisation became an unincorporated state-owned enterprise in 1990 it was a radical change. This was followed by corporatisation, stock listing, and de-merger of Post Office and Telecom Finland in the end of the 1990s. From these changes in the (business) environment the company's internationalisation really started.*

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<sup>1</sup> Telephone cooperatives had approximately 75% market share of the local telecommunications services. In 1938 the number of these types of independent local cooperatives in Finland was 850 (Davies, 1994), although later (prior to the liberalisation of the market in 1987) the number dropped to 70. Many perceive that this almost unique situation globally was one major factor in Finland being one of the most advanced telecommunications markets in 1990s and early 21st Century. It is notable that in addition to its monopoly position in long-distance and IDD calls, PTO was also the regulator of the industry (Turpeinen, 1996).

<sup>2</sup> Following the 1990 amendments to the 1987 Telecommunications Act the Helsinki Telephone Company (HTC), Finland's largest telephone cooperative and PTO's main competitor, was granted a licence to provide international services between Helsinki and Tallinn, Estonia.

<sup>3</sup> The first GSM licence was granted to Radiolinja Oy, a company owned by HTC and a few Finnish corporations. The world's first GSM call was made by the Finnish Prime Minister Harri Holkeri in 1st of July 1991. Telecom Finland still maintained its monopoly in analogical NMT networks and soon followed Radiolinja with its own GSM network, being able to maintain the dominant market position in the mobile sector.

<sup>4</sup> The most significant licences for international traffic were granted to Oy Finnet International Ab (a company owned by a group of local cooperatives, of which HTC was the largest) and a new player in the Finnish telecommunications sector, Telivo Oy. In the first years since the competition opened Telivo was limited to a 5% market share by the Government to provide time for incumbents to adapt.

<sup>5</sup> One of the other subsidiaries was Avancer Oy, previously the IT-department of PTO. PT Finland Oy sold Avancer Oy to a Finnish IT-services firm Tieto Oyj and Sonera became a minority owner (27%) in this company. Tieto Oyj was later merged with a Swedish Enator, and a new company TietoEnator was formed. In addition to Finland and Sweden, the company had operations in most European countries, the US and Asia. In 2001 Sonera sold its 18.7% share in TietoEnator Oyj.

<sup>6</sup> The company was listed on the Helsinki Stock Exchange on 10<sup>th</sup> November, 1998. In the privatisation process the Finnish government sold 22% of its ownership in the company for EUR 1.2 billion. During later years the government sold further shares, reducing its ownership to 60% in 1999, to 54% in 2000, and to 53% in 2001.

<sup>7</sup> PTO resisted strongly the deregulation developments as it estimated that it would lose 50% of the market in both long-distance and international calls (Turpeinen, 1996). This also happened rapidly. For example, in 1994 its long-distance revenues dropped to FIM 200 million from FIM 700 million in the previous year (Heywood, 1995). These new developments also resulted in a need to reduce the number of employees by half (Vennamo, 1999). On the other hand, the listing on the NASDAQ provided Sonera with access to financial resources to internationalise (Tainio, 2003). Also, the company's operating profit remained strong due to the relatively importance and growing role of mobile communications (Heywood, 1995).

This was also evident in the objectives set at the time of the corporatisation of the company that by year 2000 a third of its revenues should be generated internationally (Turpeinen, 1996; Telecom Finland Annual Report, 1994).

## **Internationalisation Milestones**

In this section the milestones of the company's internationalisation are reviewed (see also Appendix 7 c for chronological developments).

### International Calls and Satellites

As was the nature of the industry, traditionally the company cooperated with other incumbent telcos in interconnection to provide international calls and data services to its domestic customers.

In the early 1990s there was a brief window of opportunity for the company to provide call-back services for international calls customers, as the Finnish telecom tariffs were among the lowest in the world (Pinsky, 1994). This service was possible from 30 countries but even with this service the customers targeted were mostly Finnish business travelers and overseas operations of Finnish companies. However, the product life was short-lived, as the tariff differences across countries evened out relatively quickly.

The company was also a member of international satellite consortiums formed in the 1960s and 1970s: INTELSAT, INMARSAT and EUTELSAT, although satellite communications never played a very important role for it.

### Other International Bilateral/multilateral Cooperation

Traditionally the company was actively involved in both multilateral and bilateral cooperation with other incumbent telcos internationally. For example, it was engaged in very active cooperation with other Nordic telcos, such as the annual Nordic Telecom Conference (NORDTEL) and the development of the Nordic mobile telephone (NMT) network<sup>8</sup>. Also, the company participated in ITU-based cooperation actively<sup>9</sup>. Other, mostly European multilateral cooperation forums included CEPT, EURESCOM, ETNO, and ETSI<sup>10</sup>.

Some more recent examples of bilateral cooperation included a cooperation agreement in 1994 with a US-based MCI in data services, and a deal in 1997 with Japanese NTT DoCoMo in the development of 3G mobile technology and standards. Telecom Finland also cooperated with MIT Media Lab's Digital Life project in the US and was a member of IMDI (International Management and Development Institute) (Vennamo, 1999).

### Developing Aid and Consulting Projects

The first outward internationalisation activities, commencing actively in the 1970s, were consulting projects in developing countries in Asia and Africa<sup>11</sup>. In 1980 the Tele established a separate company, Telecon Oy, which was actively engaged in ITU, UN and World Bank related aid projects. The company was also engaged in some network construction projects, for example in Turkey and in the Soviet Union as a subcontractor for Nokia. Although the importance of these projects was not financially significant for the company, many of its employees (mostly engineers) gained valuable international experience<sup>12</sup>.

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<sup>8</sup> NORDTEL was a biannual conference between the CEOs of all Nordic incumbent telcos. Nordic cooperation in telecommunications was important in many perspectives. For example, NMT became the world's first cross-border mobile network with international roaming being one of the main reasons for the great success of Nordic telecommunications companies, such as Nokia and Ericsson, but also its mobile operators.

<sup>9</sup> A good example of the company's strong position in the industry and an active role in ITU cooperation was the nomination of PTO's ex-Director General Pekka Tarjanne as ITU's Secretary General in 1989 (Turpeinen, 1996).

<sup>10</sup> CEPT (Conference Europeenne des Administrations des Postes et des Telecommunications); EURESCOM (European Institute for Research and Strategic Studies in Telecommunications); ETNO (European Public Telecommunications Network Operators' Association); and ETSI (European Telecommunications Standards Institute).

<sup>11</sup> These included projects in Bangladesh, Egypt, Malaysia, Nepal, Sri Lanka and Sudan (Turpeinen, 1996). In addition to the projects in the telecommunications sector, the Post Office also engaged in developing aid projects in Africa and South East Asia, developing valuable contact networks with the local post- and telecommunications authorities in these regions (Vennamo, 1999)

<sup>12</sup> Although many of Telecom Finland's personnel, especially engineers, gained valuable international experience from these projects, and valuable contacts were established with many local telecommunications authorities, some of the interviewees indicated that this was not utilised well enough in the later phases of internationalisation.

## Opportunistic International Investments

As mentioned earlier, deregulation of the domestic market created pressures for the company to internationalise. In 1987 an international business unit, Fintelcom, was established, with a background in the foreign department of the PTO. Its objective was to ensure the competitiveness of the company in the long-run, including possible international expansion and possible acquisitions (Turpeinen, 1996).

In 1988 the first overseas investments for the company were a 16% share in Scandinavian Telecommunications Services (STS), a joint-venture between Nordic incumbent telcos, and a 10% share in Infocom, a Finnish-Soviet company providing telecommunication and IT-services in the Soviet Union. The first significant international infrastructure investment was a project to build a cable connection to Leningrad (now St. Petersburg), in the Soviet Union<sup>13</sup>. The cable connection was the first one to provide modern international connections between Western Europe and the Northwestern part of the Soviet Union. The company sold capacity of this cable to business customers in both Finland and the Soviet Union/Russia, and also to other international telcos. Later in the 1990s the company's Russian subsidiary built a cable connection from St. Petersburg to Moscow. Other than this, the company's involvement in building international cable systems was relatively limited<sup>14</sup>.

When Telecom Finland became an unincorporated state-owned enterprise (in 1990) it was able to increase its stakes in international investments. In 1990 a JV (49%) LenFinCom was established with Soviet partners to manage Tele's data communications in the Soviet Union<sup>15</sup>. In 1991, just before the collapse of the Soviet Union, Tele invested in TeleNord, a (small) JV (50%) in the Murmansk region and in a JV (50%) Baltic MobilTel, an NMT operator in Vyborg and the Leningrad region<sup>16</sup>. In 1993 the company entered in a consortium North-West GSM (23.5%) with Scandinavian telcos Telia and Norwegian Telecom (later Telenor), and local Russian partners<sup>17</sup>. Tele was the largest share holder in what was Russia's first national mobile operator, although the Russian partners together still owned 51% of the company.

At the same time as the above mentioned developments, in 1990 the Baltic States started their road to independence. Estonia, as the closest Baltic state to Finland became a natural expansion market for the company<sup>18</sup>. The first minor operations in Estonia included an instalment of a NMT450 base-station in Tallinn in 1990, followed in 1990/91 by a fibre optic cable linking Helsinki and Tallinn<sup>19</sup>. Soon Estonia announced their aspirations to establish a mobile phone company of their own. Negotiations followed, which resulted in Telecom Finland (24.5%) and Televerket (later Telia)(24.5%), an incumbent telco from Sweden, becoming owners of the new company, Eesti Mobiiltelefon (EMT), together with the Government of Estonia (51%)<sup>20</sup>. In 1992 Tele continued its cooperation with Televerket and the Estonian Government in its investment (24.5%) in Eesti Telefon (Estelcom), an incumbent fixed-line operator<sup>21</sup>. Tele also established subsidiaries in both Tallinn and St. Petersburg to manage its investments in these markets and to limit its risk liabilities (Turpeinen, 1996).

Similarly, in 1991 Tele, together with Televerket and a few local partners, established Latvijas Mobilais Telfons (LMT), a mobile operator in Latvia (Tele's share 24.5%)<sup>22</sup>. In 1993 LatTelekom, an incumbent fixed-line operator in Latvia was privatised and Tele, this time together with British Cable & Wireless, won the competition to acquire shares in the new established LatTelekom Limited (13.2%)<sup>23</sup>.

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<sup>13</sup> Tele partnered in the cable project with IVO and Lenergo, Finnish and Soviet energy companies respectively. Tele's ownership share of the project was one third.

<sup>14</sup> The company was a minority partner in some smaller scale subsea cable projects, for example, partnering with Tele Danmark, Swedish Tele 2 and the UK-based Mercury Communications in building fibre-optic submarine cable system between Sweden and Denmark. In 1997 the company also participated in the Baltics, to build a submarine cable system connecting Poland with Sweden and Denmark.

<sup>15</sup> The then key partners in LenFinCom included some important local politicians, of which one later became Communications Minister of Russia and another one a CEO of a major Russian telco.

<sup>16</sup> Later the company withdrew from some of its Russian and Baltic NMT operations due to large scale frauds that arose from inadequate security coding of the NMT technology.

<sup>17</sup> North-West GSM was formed as a merger of several smaller regional mobile operators and became the largest GSM operator in the St. Petersburg region and the first national operator in Russia. Later North-West GSM acquired many smaller Russian mobile operators, including ZAO Sonik Duo, a GSM operator in the Moscow region that Sonera had invested in, and changed its name to MegaFon (in 2002). MegaFon became the third largest national GSM operator in Russia.

<sup>18</sup> Actually, Tele provided the Estonian Government with some mobile connections already in the late 1980s, helping them to circumvent the fixed-lined connections still routed via Moscow.

<sup>19</sup> The first NMT450 base station in Tallinn used the NMT network/exchange in Finland and was installed without specific permission from Moscow.

<sup>20</sup> EMT became one of the company's most successful international investments in relative terms.

<sup>21</sup> Televerket was already selected as a sole foreign partner for Eesti Telefon in Estonia, when Tele was able to use its CEO Pekka Vennamo's good contacts with Estonian key politicians. Negotiations followed with both Televerket and Estonia, and Tele joined in as another international partner with equal shares with Televerket (Vennamo, 1999).

<sup>22</sup> The official partner in the cooperation was Televerket's subsidiary, Swedish Telecom International. The negotiations started and MoU was signed in 1991, and Latvian Mobile Company launched its service in 1995.

<sup>23</sup> Interestingly, in this case the company was competing with Swedish Televerket, as Televerket partnered with Deutsche Telekom to compete for the ownership of LatTelekom. Later in 1998 Sonera acquired most of Cable & Wireless shares increasing its ownership stake in



In 1990 the company entered into negotiations in Turkey with a local telco to build and operate mobile phone networks. Although these first projects did not fully realise, this led to other larger projects<sup>24</sup>. The company's investment in Turkcell İletişim Hizmetleri AS (Turkcell), the largest GSM operator in Turkey, became its largest so far. The company's share in Turkcell was 34%, the other shareholders being Ericsson and local partners<sup>25</sup>. Later these investments in Turkey also helped the company to enter several Central Asian countries, as in 2000 the company, together with Turkcell and its Turkish investors, established Fintur Holdings K.V. (35%), which invested in GSM operators in Azerbaijan, Georgia, Kazakhstan, and Moldova<sup>26</sup>.

In 1991 the company established a wholly-owned subsidiary, Telecom Finland International S.A. /N.V. (TFI) in Belgium. This subsidiary became responsible for the company's international investments, supported its B2B sales, and was observing increasing competition in the EU<sup>27</sup>. Soon more investments in other parts of Europe and around the world followed. In 1993 the company participated in a consortium that was granted a 15-year GSM licence in Hungary. The company's ownership share in the new operator, Pannon GSM Rt., was 14%, the leading international telco owner in the consortium being Telecom Denmark<sup>28</sup>. In 1994 the company invested in a 14% share in Libancell S.A.L, a mobile operator in Lebanon, and in P Plus Communications Limited (23%), a Hong Kong-based mobile operator in PCN technology.

By 1997 the company's international investments exceeded FIM 1.3bn, mostly minority stakes in foreign telcos (Kauppalehti, 1 Oct 1997). Its ambitions to become a truly international telco grew further, which was also reflected in the statements of its senior managers: "*Tele must look overseas*", argued its export director Jarmo Sundin (Reuters News, 28 May 1997); Karl-Erik Relander, the director in charge of the company's international operations stated: "*the company needed to grow internationally*" (Kauppalehti, 1 Oct 1997, pg. 5); and Aimo Olkkonen, managing director of TFI argued that the US telcos, with their large financial resources, are entering European telecommunications markets, thus threatening the advantage that the Europeans had in mobile communications (Kauppalehti, 28 Feb 1995). The company's objective had already risen to generate more than 50% of its profits internationally by 2005 (Nordic Business Report, 1998). Thus, in the late 1990s the internationalisation pace of the company accelerated further.

In 1998 the company, together with Telia, acquired a majority (both with an equal 27.5% share) of a Lithuanian GSM operator UAB Omnitel. In the same year the Lithuanian government privatised its fixed-line operator AB Lietuvos Telekomas, and Sonera, again with Telia, became an international partner, with a 30% share (Telia with an equal share). This meant that the company had a share of all major mobile and fixed-line operators in the Baltic States. The company also invested in (50%) HanseNet Telefongesellschaft GmbH & Co KG, a fixed line operator in Hamburg, Germany. In 1998 the company also invested significantly in the USA mobile market by acquiring a 19.7% share in Aerial Communications Inc., and in the following year a 9.1% share in Powertel Inc., both US-based cellular operators<sup>29</sup>. These acquisitions were made at the same time that the company was in the process of listing itself on the NASDAQ, a very important time period in the company's internationalisation.

At the end of the 1990s and early 2000 in line with the technology boom, many European countries started auctions for 3G (third generation) mobile licences. Generally, there was a strong urge to capitalise on the first mover advantages in the industry. Sonera participated actively in these auctions. In 2000 it invested in Orla GmbH, a JV (42.8%) with Telefonica, a Spanish incumbent telco<sup>30</sup>. Orla won a 3G licence in Germany<sup>31</sup>. The company also invested in a 12.5% share in the Ipse 2000 S.p.A consortium, and in a 14% share in Xfera Moviles S.A., which won 3G licences in Italy and Spain, respectively<sup>32</sup>. In Norway the company entered in a JV (50%) Broad Band Mobile ASA with a local partner. Furthermore, the company invested in a 35% share in Zao Sonik

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LatTelekom to 44.1%, and later in 1999 to 49.1%. It is notable, that when privatised, LatTelekom was granted a monopoly until 2013. However, due to Latvia's WTO membership, this was later reduced to 2003, for which the company received compensation.

<sup>24</sup> In 1988, together with Nokia, Tele had already been involved in building a mobile network in Turkey. In 1992 the Turkish government made a request for a proposal for the company to build a NMT900 network in the country.

<sup>25</sup> In 1998 the company bought Ericsson's shares and its ownership rose to 41%. In 2000 Turkcell was listed with such a high price that Sonera received all the money it had invested in the company and still owned 37% of its shares.

<sup>26</sup> Fintur Holdings owned 51.3% of Azercell Telecom B.M. in Azerbaijan, 83.2% of Geocell LLC in Georgia, 51% of GSM Kazakhstan, and 77% of Moldcell S.A. in Moldova (Inzhenernaia Gazeta, 2002).

<sup>27</sup> In 1994 the company moved all its international operations, including the Belgium subsidiary, to a new unit, Telecom Finland Ventures (TFV).

<sup>28</sup> Other international telcos in the consortium were Dutch PTT, Norwegian Telecom (later Telenor), and Swedish Televerket (later Telia AB). The rest of the consortium members were three local companies. Telia divested its ownership in Pannon GSM in 1996 and Tele Denmark in 1998, increasing Sonera's ownership in the company to 23%. In 2001 also Sonera sold its shares leaving Telenor as the sole international telco owner in Pannon GSM.

<sup>29</sup> Later in May 1999 the company increased its share of PowerTel to 11.8%. Aerial merged with VoiceStream to form a new company, VoiceStream Wireless Corporation, of which Sonera owned 7.9%. However, these investments were perceived to be opportunistic financial ones rather than strategic. By 2001 the company had sold its shares in both VoiceStream and PowerTel to Deutsche Telekom.

<sup>30</sup> Orla GmbH was a holding company, which owned 100% of Marabu Vermögensverwaltung GmbH, the actual company that was granted the 3G licence (Sonera Annual Report, 2000).

<sup>31</sup> Sonera invested 908 million Euros in the company and, in addition, lent 2719 million Euros to it, so that the company was able to pay the expensive 3G licence. (Sonera Annual Report, 2000)

<sup>32</sup> Sonera's investment in Ipse 2000 was 270 million Euros and in Xfera Moviles 43 million Euros (Sonera Annual Report, 2000).

Duo, a Russian mobile operator that received a GSM licence in the Moscow region. At the time of the 3G auctions many argued that to win 3G licences in Germany and other major European markets would lift its market value significantly (The Wall Street Journal, 14 Aug 2000). However, all this ended up being very costly for the company.

### Expanding to Goods and Other Services, and 'Born Globals'

Although the majority of the company's international operations were focused on traditional network-based telco services, its strategy during the most rapid internationalisation phase was based on also expanding global mobile markets with non-network-based service businesses. The company established new service businesses Sonera Zed, SmartTrust, Plaza and Juxto, which were later also corporatized<sup>33</sup>. Sonera Zed was a company providing value-added mobile services, such as logos, ringtones, directory services and news. SmartTrust provided security technology for mobile phone payment/transactions. Both of these companies targeted global markets by selling their services to other telcos and similar companies<sup>34</sup>. Both Sonera Zed and SmartTrust also opened their own offices globally, including in the USA and Asia<sup>35</sup>. Sonera Plaza was an internet portal and Juxto an application service provider (ASP) that targeted business customers. These two companies focused mostly on domestic markets and neighbouring countries. Sonera also engaged in some activities to expand its directory business internationally<sup>36</sup>.

During this rapid internationalisation phase, Sonera also acquired and/or invested in many smaller companies such as Across Wireless and Metro One Telecommunications in the US, Conduit Plc in Ireland, Intra Call Center S.A. in France, and Across Holding and iD2 Holding AB in Sweden. These acquisitions were supporting its global service businesses, for example, Metro One Telecommunications, Conduit Plc., Intra Call Center provided enhanced directory and call centre services, and iD2's Public Key Infrastructure (PKI) technology was very relevant to SmartTrust's services. Also, the company joined forces with Citigroup Inc. and acquired a 40% share in 724 Solutions Inc, a Canadian-based software developer of mobile banking systems. In addition, the company established its own venture capital fund, which invested in new innovative mobile and internet technology companies, such as PeopleSound.com, Juniper Financial Corporation, and Frontec Support and Operations AB (Sonera Annual Report, 2000).

### De-internationalisation Developments

As a result of a very aggressive expansion strategy, the company ended up paying approximately 4 billion Euros for 3G licences (Sonera Annual Report, 2000)<sup>37</sup>. To be able to pay for these investments, it was forced to sell some of its other investments. The company sold part of its Turkcell shares (10%) for 0.7 billion Euros. It also sold its shares in PowerTel Inc. and VoiceStream Wireless Corporation to Deutsche Telekom, effectively retreating from the US mobile operator markets<sup>38</sup>. In addition to the divestments of its US-based operations, it also planned to divest other non-core investments (Sonera Annual Report, 2000)<sup>39</sup>. Thus, in 2000, it announced that it would focus on three major markets in Western Europe: Germany, Italy, and Spain, and on Finland and Norway.

In spite of the above mentioned divestments, the company was not able to collect enough money to proceed with all of its 3G-projects. It would appear that it took very high risks relative to its available resources; in addition to the licence payments the network building costs were also expected to be significant. All this coincided with the technology/telecom bust, thus putting significant financial pressure on both the company and its partners in these

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<sup>33</sup> At the beginning of 2000 Sonera corporatized Sonera SmartTrust AB, and shortly afterwards, was Sonera Zed Oy and Sonera Juxto Oy. Sonera also had plans to list Sonera Zed and SmartTrust, but this never realised. In August 2002, Yahoo! acquired a 16% share in the Sonera Zed, with an objective to co-brand value-added mobile services in Europe and an option to increase its ownership share to 100%. However, Yahoo! did not exercise the option and Sonera was required to buy back the shares in 2004. Later in that same year Sonera sold the company to Wisdom Entertainment, a Spanish interactive media group.

<sup>34</sup> For example, Sonera established an office in New Jersey, USA, to sell and market its services to US telcos. An example of cooperation in Europe included a distribution contract with Telecom Italia Mobile (TIM) in Italy. Sonera Zed had more than telco customers and offices in Europe, the Americas and Asia, and SmartTrust technology was eventually sold to over 80 customers globally.

<sup>35</sup> Target markets for Sonera Zed included the UK, Germany, Italy, the Philippines, the US, the Netherlands, Turkey, Malaysia, and Singapore.

<sup>36</sup> For example, the company expanded to the Russian and Baltic directory business markets with its JV InterInfo Oy (in cooperation with a Finnish newspaper and media company Turun Sanomat). All these operations were later managed by its wholly-owned subsidiary Sonera Info Communications Oy.

<sup>37</sup> Sonera was not alone with its significant investments in 3G licences, as during the years 1999 and 2000 European telcos paid over 110 billion euro for 3G licences. (The Economist, 18 Aug 2001).

<sup>38</sup> The divestments of the shares in its US mobile operators was a part of the larger plan related to its engagement in 3G auctions in Europe. However, requirements by US authorities delayed the sales and as the technology bust hit at the same time, Sonera ended up receiving much less money from the shares that it had estimated.

<sup>39</sup> In October 2001 the company sold its 23% share of Hungarian Pannon GSM to Norwegian Telenor, and in July 2002 it divested its shares in LibanCell.

projects. As the company's CEO, Kaj-Erik Relander stated (Reuters News, 31 Jan 2001): *"We would probably have gone to Germany with a smaller (3G) stake if we had foreseen the events (that were to unfold)"*.

In August 2001 Sonera was forced to give back its licence and liquidate the joint venture in Norway, as its partner Enitel AS withdrew from the project and Sonera was not willing to proceed alone. In August 2002 Sonera was forced to write off almost all of its 3G investments (in licences and companies), as it and its partners decided to pull out from their 3G launches in Germany and Italy (New Media Age, 1 Aug 2002). Also with regards to its global service businesses, Sonera abandoned its previous strategy. It started to look for other investors for its service businesses and later divested or incorporated them<sup>40</sup>.

To sum up, Sonera had updated its 3G strategy, and international strategy overall, to a more careful one, and its main focus was again mostly on its domestic operations and on a few selected growth markets, such as Russia, Turkey and Central Asia. The rapid internationalisation phase had been very active but short-lived.

### Failed Bids

Telecom Finland was also active in bids to build GSM networks in countries such as Belgium, Czech Republic, Israel, the Netherlands, Panama, and Poland, but these were not successful. During the most rapid internationalisation phase the company was also trying to acquire a 3G licence auction in Sweden (in cooperation with Telefonica and a Swedish investment company Industri Kapital) and in the UK<sup>41</sup>.

### Merger with Telia and Focus on One's Own Region

Sonera's internationalisation as an individual company had included very successful investments, such as its cable connection to St. Petersburg, EMT in Estonia, Turkcell in Turkey, and at some level North-West GSM in Russia and, on a smaller scale, Libancell in Lebanon. Also, the financial investments in the US mobile operators were very successful and well-timed. However, in the end its aggressive participation in the 3G auctions and large scale investments in global mobile service businesses were too costly and risky for the company. The new more focused strategy was not sufficient alone and the company (and the Finnish Government as the major owner) kept looking for other alternatives, such as international alliances and/or mergers. For example, Finland's Communications Minister stated that Sonera was too small to survive as an independent company (RCR Radio Communications Report, 30 Oct 2000), and a spokesman for the Communications Ministry, Samuli Haapasalo stated: *"Negotiations are going on to find a partner,"* (Financial Times, 9 Aug 2000, pg. 24)<sup>42</sup>. General perception seemed to support consolidation developments in the industry (due to high debt levels of telcos and slowing growth in the maturing mobile markets) and newspapers reported that Sonera was a target in many acquisition plans by larger European telcos.

The abovementioned speculations and plans resulted in negotiations between the Swedish and Finnish Governments and on 26<sup>th</sup> March 2002 a general agreement of a merger between Telia and Sonera was reached<sup>43</sup>. The merged entity, TeliaSonera AB, was owned by the Swedish Government (45%), the Finnish Government (19%), and international institutional investors (29%). This was the first time when two incumbent telcos, owned by two countries, had merged together, although many perceived this to be an acquisition by Telia, rather than a merger of equal partners (Utility Week, 26 Sep 2003)<sup>44</sup>. Description and analysis of the merged company, TeliaSonera, will be included in Section 10.4 and the appendices on Telia's internationalisation.

### B2B Offices

Some of the company's first entries into Russia were driven by its B2B customers. For example, some Finnish forest companies had entered Russian Karelia pushing the company to improve its services in this regional area. Moreover, the offices that the company established in St. Petersburg and Brussels to manage its international investments, were supporting its B2B operations as well. In 1994 the company expanded into the Swedish telecommunications market by establishing a subsidiary, Telegate Sweden AB, which provided data

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<sup>40</sup>Both Sonera Zed and SmartTrust started to streamline their operations and/or sell or close their overseas offices. In May 2002 Sonera sold a majority (54%) of Sonera SmartTrust AB to international venture capital funds, and later it sold the rest of the shares. In 2001 the company also divested Sonera Info Communications Oy and sold its shares in TietoEnator Oyj.

<sup>41</sup>One reason that Sonera decided to retreat from its Norwegian 3G plans was that it was not able to secure a 3G licence in Sweden. That is, its plan included utilising economies of scale in networks and related operations across these three neighbouring countries.

<sup>42</sup>There were also opposing opinions. Some argued that after the Government had provided a capital injection of one billion Euros for Sonera in 2002, it would have survived also as an independent company.

<sup>43</sup>Before the finalisation of the merger, Sonera had to write off its investments in European 3G licences (in July 2002), as mentioned earlier, and the Finnish Government made a EUR one billion capital injection to rescue the company.

<sup>44</sup>This view seem to be supported by the events in the following years, in which the company's top management has become predominantly Swedish, most HQ operations are located in Sweden, and many Finnish top managers were forced to leave or leaved voluntarily.

communications solutions for B2B customers<sup>45</sup>. In the 1990s the company was perceived to be one of the world's pioneers in B2B data services technology. By the end of the 1990s it also had B2B-related operations in some other developed countries, such as Germany, the Netherlands, the UK, and the USA. However, the company's investments internationally in B2B offices and other facilities were relatively limited when compared to many larger telcos. Actually, at one time during the most active internationalisation phase the company's focus was almost solely on global consumer businesses and it divested many of its international B2B operations<sup>46</sup>. As explained by one of the senior level managers interviewed:

*During the strong internationalisation phase the key strategy was to focus on global consumer businesses. Business customers were left on a side-role. Actually this was really damaging for this business area, as there were a few years' period during which this side of the business was almost completely neglected and we lost the frontrunner position (that we had).*

### International Strategic Alliances

The company was also engaged in some strategic alliances at a global level. These were mostly related to its B2B operations or were established to promote cooperation in developing new technologies and/or setting industry standards. In 1992 the company extended its cooperation with Infonet Services Cooperation (which had started in 1987) by establishing a JV (90%), Infonet Finland Ltd, to provide international value-added services to its Finnish business customers and to sell its capacity in Finland to other Infonet partners. In 1994 the company also participated in cooperation with the British Telecom led Concert alliance, although this was a relatively short-lived initiative. The telecommunications companies in Europe had by then already gravitated towards three major groupings. British Telecom and MCI of the USA made up one of the groups. A second large grouping comprised Telia of Sweden and the Dutch and Swiss national telecommunications companies, which together operated the Unisource service company, whose cooperation partner was AT & T of the USA.

The company was also active in some initiatives and alliances to develop wireless technologies and services, for example, with Ericsson, Lucent Technologies, Cable & Wireless, and HKT of Hong Kong in mobile banking, and R&D cooperation with Hewlett Packard, especially with regards to European markets (American Banker, 1999; Sonera Annual Report, 2002).

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<sup>45</sup> In 1995 Telegate Sweden AB changed its name to Telecom Finland AB. The company's Swedish operations never grew to be very important, as the revenues remained relatively modest and these operations kept making losses.

<sup>46</sup> For example, Sonera sold its fixed-lined (B2B) business in Belgium and the Netherlands to Axxon Telecom N.V. in 1998 receiving 40% ownership in this fixed-line voice services provider, and later in 1999 sold all these shares.

## Appendix 7 b

<b>History of Sonera and the Finnish Telecommunications Sector</b>	
<b>Year</b>	<b>Company Event &amp; Related Event</b>
1855	Sonera perceives 1855 as the beginning of its history, when a line between St. Petersburg and Helsinki was completed and the first electric telegraph offices were opened in Finland. (At that time Finland was an autonomous Grand Duchy within the Russian Empire).
1917	Finland's declaration of independence from Russia and the former telegraph district of Finland became the Finnish Telegraph Office,
1927	The Telegraph Office merged with the Post Office to form the Administration of Posts and Telegraphs (or the Post and Telegraphs Office, PTO)
1935	PTO gained (in practice) monopoly in long-distance calls.
1945	Telex service was launched soon replacing the traditional telegraph service.
1971	The launch of the first car phone services in Finland.
1982	NMT (Nordic Mobile Telephony) service opened in Finland. (The first call was made in Tampere, Finland in 1978, and the service opened in 1981 in Sweden and Norway, with Denmark and Finland following the next year.)
1987	The Telecommunications Act of 1987 - The sales of telecommunications equipment was deregulated. (Prior to this PTO was responsible for regulation in Finland.)
1988	Competition in data communications opened when local telco cooperatives and several large Finnish corporations established a JV, Datatie Oy.
1990	Amendments to the 1987 Telecommunications Act increased competition in local and long-distance telephone services. PTO transformed from a state agency to an unincorporated state-owned enterprise, with a separate budget from state.
1991	Competition in mobile communications opened, when Radiolinja Oy became the first operator in the world to launch a GSM service. Radiolinja was owned by local telco cooperatives and several large Finnish corporations. Competition in international calls opened, when the Helsinki Telephone Company (the largest regional telco cooperative in Finland) was granted a licence to open a connection between Helsinki and Tallinn, Estonia.
1992	A new Finnish telco, Telivo Oy (established by IVO, a Finnish energy company) was granted a licence for domestic long-distance calls.
1993	The Finnish Government granted five international carrier licences to local groups/telcos to promote competition in international calls. (In the beginning Telivo's market share was limited to maximum 5% by the Government.)
1994	'Full' liberalisation of the Finnish telecommunications markets. All domestic telecommunications were opened to competition (although still many limitations remained with regards to local connections, number portability, et cetera).  PTO became a state-owned limited liability, PT Finland Oy, with two major subsidiaries, Post of Finland and Telecom Finland Oy (Tele).
1998	Telecom Finland Oy changes its name to Sonera Oyj and was listed on the Helsinki Stock Exchange and the NASDAQ. The Finnish government sold 22% of its ownership in the company.
1999	The Finnish Government sold more Sonera shares reducing the ownership to 60%.
2000	The Finnish Government sold more Sonera shares reducing the ownership to 54%.
2001	The Finnish Government sold more Sonera shares reducing the ownership to 53%.
2002	A merger between Telia AB, the Swedish Government-owned incumbent and Sonera, to form a new company, TeliaSonera with the headquarter Stockholm, Sweden. The Swedish Government owned 45% of the new company, the Finnish Government 19% and international institutional investors 29%.

## Appendix 7 c

<b>Sonera's Most Important International Activities in a Chronological Order (including predecessors)</b>				
<b>Year</b>	<b>Event</b>	<b>Market</b>	<b>Operation</b>	<b>Product</b>
Pre 1970s -	Multilateral and bilateral cooperation (e.g. ITU; Nordic cooperation, such as NORDTEL and the development of NMT; European forums, such as ETSI, CEPT, EURESCOM, ETNO )	Global /Europe	Cooperation	E.g. interconnection, training, standards
1970s-1980s-early 1990s	Development aid projects - Telecon Oy established in 1980  (In the late 1980s the company was also engaged in some mobile network building projects together with Nokia, for example in Turkey and the Soviet Union.	Bangladesh, Egypt, Malaysia, Nepal, Sri Lanka, Sudan (i.e. mostly in Africa and South East Asia) (Turkey, the Soviet Union)	Transhuman export  Telecon Oy was a subsidiary of PTO.	Know-how (Consulting projects)
1987	Fintelcom was established to be responsible for the PTO's international operations (previously the foreign department of the PTO) Fintelcom had investments in companies such as Scandinavian Telecommunications Services (STS), a company that was established together by Nordic incumbent telcos and in which PTO owned 16%)	International	A separate unit	
1988	Infocom, a Finnish-Soviet company providing IT-services in the Soviet Union	The Soviet Union (Russia)	Investment (10%)	Services (IT-services)
1990	LenFinCom was established to manage PTO's cable businesses in the Soviet Union. Earlier PTO (Tele) had built a cable connection from Lappeenranta, Finland to Leningrad (now St. Petersburg)	The Soviet Union (now Russia)	Investment (49%)	System network/services (cable system, IT services, later also mobile operators )
1991	TeleNord – NMT operator	The Soviet Union (the Murmansk Region)	Investment (50%)	Systems/network (mobile operator)
1991	Baltic MobilTel – NMT operator	The Soviet Union (Vyborg/the Leningrad region)	Investment (50%)	Systems/network (mobile operator)
1991	Agreement with Estelcom for a fibre optic cable linking Helsinki and Tallinn	Estonia / Baltic States	Cooperation	System network (fibre optic cable)
1991	Telecom International S.A. A wholly-owned subsidiary to manage Telecom Finland's international operations. (in 1994 all international operations, including the Belgium subsidiary, were transferred to a separate unit, Telecom Finland Ventures)  Later the company also established wholly-owned subsidiaries in St. Petersburg, Tallinn, and the US. It also opened some small offices in other large developed countries, such as Germany and UK. However, many of these activities were short-lived and overall the company's investments in B2B operations globally were relatively modest.	Belgium - International	Wholly-owned subsidiary  Branch office s/ Subsidiaries (100%)	Holding company/ B2B /liaison office
1991/92	AS Eesti Mobiltelefon (EMT) – A mobile operator (NMT/GSM) (Cooperation had started already earlier with connections through Helsinki NMT network)	Estonia	Investment (24.5%)	System network (mobile operator)
1991 (1995)	Latvijas Mobilais Telfons SIA (LMT) – A mobile operator (GSM) (The service was launched in 1995)	Latvia	Investment (24.5%)	System network (mobile operator)
1992 (1987)	Infonet Finland Ltd. / Infonet Services Corporation (alliance with 11 major telcos) (cooperation with Infonet started in 1987)	Global (Finland)	Investment (90%) Cooperation/alliance	B2B data services
1992	AS Eesti Telefon (Estelcom) - A JV with Estonian Telecom (together with Telia) to modernise Estonia's telephone network (Later the name changed to Eilon & Eesti Telekom became the holding company)	Estonia	Investment (24.5%)	Systems/network (fixed-line operator)

1992/93	North-West GSM (The company was formed in merger between several smaller mobile operators and became the first national GSM operator in Russia. Later North-West GSM acquired more regional operators, expanded to the Moscow region, and changed its name to MegaFon.)	Russia (North-Western region: e.g. St Petersburg, Petrozavodsk, Vyborg, Novgorod, Pskov, and Murmansk; later also Moscow and other parts of Russia)	Investment (23.5%) > Later bought out Telenor's share with Telia)  (MegaFon, 26% in 2001)	System network (mobile operator)
1993	LatTelekom SIA (Lattелеcom) (A consortium with Cable & Wireless and local owners to help modernise Latvia's telecommunications firm, LatTelekom)	Latvia	Investment (13.2%) >(later 44.1% > 49.1%)	Systems/network (fixed-line operator)
1993	Turkcell İletisim Hizmetleri A.S. – GSM operator	Turkey	Investment (34%) > (later 41.6% > 37.3%)	Systems/network (mobile operator)
1993	Pannon GSM Rt. – A consortium to establish a GSM operator	Hungary	Investment (14%) > (later 23%)	Systems/network (mobile operator)
1994	Telegate Sweden AB (since 1995 Telecom Finland AB) (Also plans in 1994/95 for a joint project, Telenordia, to enter the Swedish telecommunications markets with British Telecom, Tele Denmark and Norwegian Telecom, but Tele did pull out from the project.)	Sweden	Wholly-owned subsidiary	Systems/network (telecommunications and data services – B2B)
1994	Cooperation with the British Telecom led Concert alliance.	International/Global	Cooperation/alliance	Data services (B2B)
1994	P Plus Communications Limited – A mobile operator (PCN)	Hong Kong	Investment (23%)	Systems/network (mobile operator)
1995-	Telecom Finland expanded its directory businesses by establishing JVs and/or acquiring shares of existing companies internationally (e.g. in Estonia, Latvia and Russia with Turun Sanomat, a Finnish media company; in the US a 25.5% share in Metro One Telecommunications; and in Ireland/the UK a 12.5% share in Conduit Plc). These operations were later managed by Sonera Info Communications Oy, a wholly-owned subsidiary of Sonera Oyj.	International	Wholly-owned subsidiary, which owned country organisations and/or was a minority investor in them.	Services (directory services)
1995	Libancell S.A.L. – GSM operator	Lebanon	Investment (14%)	Systems/network (mobile operator)
1996	Tieto Oyj (later TietoEnator Oy) (PT Finland sold Avancer Oy to Tieto Oyj; Telecom Finland became a minority owner in Tieto Oyj)	International	Investment (27%) >(later 18.7%)	Services (IT-services)
1998	UAB Ommitel – GSM operator (in cooperation with Telia, which owned an equal share, and local partners)	Lithuania	Investment (27.5%)	Systems/network (mobile operator)
1998	AB Lietuvos Telekomas (a JV with Telia and the Lithuanian government)	Lithuania	Investment (30%)	Systems/network (fixed-line operator)
1998	HanseNet Telefongesellschaft GmbH & Co KG	Germany (Hamburg)	Investment (50%)	Systems/network (fixed-line operator)
1998	Aerial Communications Inc. (>Aerial-VoiceStream > VoiceStream Wireless Corporation)	USA	Investment (19.7%) >(later 7.9%)	Systems/network (mobile operator)
1999	Powertel Inc.- GSM operator	USA	Investment (9.1%) >(later 11.8%)	Systems/network (mobile operator)
1999	Orla GmbH ( Marabu Vermögensverwaltung GmbH) – 3G/UMTS licence	Germany	Investment (42.8%)	System network (mobile operator)

2000	Fintur Holdings B.V. (A holding company with the company's Turkish investors, related to Turkcell, to own and manage GSM operators in the Central Asia region) >See more information in Telia/TeliaSonera material	Central Asia: <ul style="list-style-type: none"> <li>• Azerbaijan</li> <li>• Georgia</li> <li>• Kazakhstan</li> <li>• Moldova</li> </ul>	JV (35%>58.55%) >(TeliaSonera 74% direct and indirect)	Systems/network (mobile operators)
2000	ZAO Sonik Duo – GSM operator	Russia (Moscow)	Investment (35%)	Systems/network (mobile operator)
2000	Sonera Zed Oy (the business launched already in 1999, corporatized in 2000)	Global (Europe, US, Asia, Latin America)	100% >(later 84%>100%)	Services (value-added services to mobile phones/portal)
2000	Sonera SmartTrust AB (SmartTrust)	Global (Europe, US, Asia, Latin America)	Wholly-owned subsidiary	Services (value-added services to mobile phones)
2000	Broad Band Mobile ASA - 3G/UMTS licence	Norway	Investment (50%)	System network (mobile operator)
2000	Ipe 2000 S.p.A – 3G/UMTS licence / consortium	Italy	Investment (12.5%)	System network (mobile operator)
2000	Xfera Móviles S.A. – 3G/UMTS licence / consortium	Spain	Investment (14%)	System network (mobile operator)
2002	TeliaSonera merger	Sweden/Finland - international	Merger	



## Appendix 7 d

<b>Summary of the Internationalisation Strategies of Sonera</b>				
	<b>Product</b>	<b>Operation</b>	<b>Market</b>	<b>Organisation</b>
Domestic Phase	DIVERSIFIED (Domestic) Integrated telecommunications services in Finland. International cable, data, telephone services targeted to Finnish customers	COOPERATION International multi- and bilateral cooperation with other telcos (e.g. NORDTEL, ITU, European cooperation forums) Satellite projects	DOMESTIC: Focus on domestic customers	DOMESTIC Domestic organisation structure
1970s	NICHE Started international operations by selling consulting services (know-how)	EXPORTS (transhuman)	GLOBAL: Focus on developing countries globally – in Asia and Africa	INTERNATIONAL International organisation structure (Telecom, Fintelcom)
1988-1997	DIVERSIFIED Systems/networks: Mobile operators Fixed line operators Cable systems  Also some investments in companies providing: IT technology and software, and directory services  B2B Data services	FDI (minority) Investments in minority JVs  EXPORTS (Transhuman, hard-services/object-based services)  A few B2B and liaison offices - wholly owned subsidiaries  Alliances (Infonet)	GLOBAL: Geographically close markets in Russia and the Baltic States. In addition, focused investments internationally/globally  The first B2B offices in neighboring countries and in a few leading business centres in developed countries.	INTERNATIONAL/ MULTIDOMESTIC International/ Multidomestic organisation structure  (GLOBAL/ INTERNATIONAL B2B)
1998-2000	MORE FOCUSED: More focused product strategy: Mobile as a spearhead.  Significant investments in systems/networks (location-bound and asset-based services) In addition, investments in global services businesses.  Venture capital investments in high-tech start-ups in the telecommunications industry Less focus on B2B operations.	FDI (minority) Investments in minority JVs  FDI (Majority) Increasing ownership share in a few selected overseas investments (but not enforcing majority ownership)	REGIONAL/GLOBAL Focus turns to Europe, and even specifically on a few selected target markets in Europe/Eurasia.  Some financial investments in the USA  GLOBAL Services businesses  (B2B not important)	MULTIDOMESTIC Multidomestic organisation structure  GLOBAL: In mobile service businesses global organisation structure.  (GLOBAL B2B)
2001/02	MORE FOCUSED: Divesting unrelated operations, such as global mobile value-added services business, IT-services, and directories.	DE-INTERNATIONALISATION: divesting non-core operations.	REGIONAL: Focus on Europe: More specifically, the domestic markets, the Baltic Sea environment: Nordic countries, the Baltic State) and a few selected growth markets: Russia, Turkey and Central Asia	MULTIDOMESTIC Multidomestic organisation structure  GLOBAL: In mobile service businesses global organisation structure.  (GLOBAL B2B)
2002/03- (Telia-Sonera)	INTEGRATED TELCO PRODUCTS (Bundling): Increasing convergence of the core telecommunications services: 'bundling' of mobile, fixed-line and data services.  Some focused strategies in Russian, Turkish and Eurasian mobile markets.	FDI Aim to move from minority to majority in subsidiaries & associates  Consolidation developments.	REGIONAL: Focus on the home markets: the Nordic countries, the Baltic states, and a few selected growth markets: Russia, Turkey and Central Asia/Eurasia  Focus on Europe in carrier networks.  REGIONAL B2B operations regional, with some global features)	TRANSNATIONAL The new merged entity, TeliaSonera, had many characteristics of a transnational organisation strategy.  GLOBAL B2B

## Appendix 8: Case Description Telia

### Company History

In 1853 the first telegraph line was built between Stockholm and Uppsala and the Government's Telegraph Agency (Kongliga Elektriska Telegrafverket) was established (see also Appendix 8 b for 'History of Telia and the Swedish Telecommunications Sector'). Sweden's first telephone call was made in the Telegrafverket's system in 1877; one year after Bell invented the telephone. In the early years there were some competing operators but in 1918 Telegrafverket gained a de facto monopoly of the Swedish telecommunications market<sup>47</sup>. Since 1891 Telegrafverket was also engaged in equipment manufacturing and soon began to produce a significant amount of all the telecommunications equipment used in Sweden (Lindskog, 2004)<sup>48</sup>. In 1953 Telegrafverket changed its name to Televerket, and in 1984 it became a state-owned enterprise with a separate budget from the state<sup>49</sup>.

In the 1980s Sweden was among the first countries in the world to liberalise its telecommunications markets. Prior to this all telecommunications equipment needed to be owned, installed and maintained by Televerket. In 1984 and 1985 the markets for terminals, telex and telephones respectively, were opened for competition. By 1989 competition had been opened with regards to all other equipment, such as PBXs. In addition-, in 1980 a new company, Comvik AB, started to provide analogue cellular phone services nationally being a competitor to Televerket's NMT services, although competition in this area remained relatively limited until the 1990s<sup>50</sup>.

In 1992 the Swedish National Telecom Agency was established as a separate regulatory agency<sup>51</sup>. Prior to this Televerket had also been responsible for regulatory issues. The Telecommunications Act 1993 opened competition in all telecommunications services making Sweden one of the most liberalised telecommunications markets in the world, although Telia was still able to maintain its dominant position in many business areas for several years<sup>52</sup>. Also in 1993, Televerket changed its name to Telia AB and became a state-owned limited liability company<sup>53</sup>. In 2000 the company was listed on the Stockholm stock exchange and the Government sold 29.4% of its shares to Swedish and international investors<sup>54</sup>.

The abovementioned deregulation developments brought many international telcos to the Swedish telecommunications market. For example, AT&T, BT, France Telecom, and Vodafone entered in B2B or mobile telecommunications markets, although the most important overall competitor became to be Tele2, a Swedish-based telco (of which Cable & Wireless owned 40%). All this put pressure on Telia to restructure its domestic operations in order to balance its shrinking market share in the domestic market but also to look more actively for international opportunities. In 1990 the company's Director General, Tony Hagström, argued that the deregulation developments would result in only three to four independent telcos in Europe and that to compete in this environment Televerket needed more international funding to make FDIs and in addition it needed to be engaged in international alliances<sup>55</sup>. Lars Berg, Hagström's successor as CEO, appointed in 1994, had set internationalisation as one of the main objectives for the company.

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<sup>47</sup> For example, prior to this Stockholms Allmänna Telefonaktiebolag (SAT) ran a telephone exchange in the country's capital. In the 1880s Telegrafverket started to acquire private telcos and by 1918 it managed almost all telecommunications services in the country.

<sup>48</sup> Televerket was well known for its active research and development work in developing telephone technology. Also, Telegrafverket had always a close cooperation with L M Ericsson, the large Swedish telecommunications equipment manufacturer. In 1970 these two companies established a research and development JV, Ellemtel Utvecklings AB, both owning a 50% share of the venture.

<sup>49</sup> Unlike in many other countries, Televerket was never linked to the Swedish postal service.

<sup>50</sup> Sweden, together with other Nordic countries, was one of the first countries to introduce mobile communications. Already since the 1960s there were some less developed regional cellular services in use. However, in 1981 Televerket's opened the NMT service, a new technology developed together with other Nordic incumbent telcos. Televerket was able to limit the success of Comvik's service, which was still based on an older non-automated technology, for example, by not granting a licence for automated service and controlling the number of frequencies granted. For example, still in 1988 Televerket's market share in cellular subscriptions was 94%.

<sup>51</sup> Later the regulatory organisation was named the Swedish National Post and Telecom Agency (Post and telestyrelsen, PTS).

<sup>52</sup> It is notable, though, that in spite of early and full deregulation – for example, there were four GSM operators and 35 registered telcos by 1996 - Telia was able to maintain a very dominant market position in many business areas into to the 21<sup>st</sup> century. Very light handed regulation actually benefited Telia. For example, the company was not forced to open access to its network and/or there were no price controls by the regulator, as in many other countries. For instance, in 1999 a PTS report stated that competition in the Swedish mobile markets was lagging that of other Nordic markets, and in 2002 Telia still had a 75% market share in fixed-line connections and local calls (Hultkranz, 2002).

<sup>53</sup> This decision provided further flexibility for the company, now being totally separated from the state budget and able to source funding in financial markets.

<sup>54</sup> Becoming a listed company further increased its funding options for international expansion. It is notable that although Sweden opened its telecommunications services market early, it took 7 years before Televerket/Telia was privatised.

<sup>55</sup> These arguments were one factor contributing to the process of privatisation of the company and later also the stock listing, although it took until 2000 for the latter to happen, as already mentioned.

## **Internationalisation Milestones**

In this section the milestones of the company's internationalisation are overviewed (see also Appendix 8 c for chronological developments).

### International Calls, Cables and Satellites

As for the other case companies, Televerket cooperated with other incumbent telcos in interconnection to provide international calls and data services to its domestic customers. In the early 1990s the company also provided an international call-back service for Swedish B2B customers travelling and/or having offices overseas so that they could circumvent the high call rates offered in countries with less competitive telecommunications markets.

Televerket participated in INTELSAT and in 1971 a satellite earth station was established in Sweden for this purpose<sup>56</sup>. It was also engaged in INMARSAT and EUTELSAT cooperation. In addition, Televerket was engaged in submarine cable projects within the Baltic Sea region and with very minor shares in some more international submarine cable projects with other telcos, such as submarine cables between Europe and the US in the early 1990s. None of the above mentioned operations targeted foreign customers; that is, they could be classified as cooperation and/or inward rather than outward activities.

### International Bilateral/multilateral Cooperation

As with the other case companies, Televerket was actively involved in multilateral and bilateral cooperation with other incumbent telcos internationally (in addition to the already mentioned cooperation in satellite and cable systems). Cooperation between Nordic telcos has a long history<sup>57</sup>. For example, Televerket was one of the key members of the Nordic Telecom Conference (NORDTEL) and in the development of Nordic Mobile Telephony (NMT) system<sup>58</sup>. At the pan-European level the company participated in organisations such as CEPT, Eurescom, ETNO, and ETSI, and globally in ITU cooperation<sup>59</sup>.

### Developing Aid and Consulting Projects

The first active international outward operations started in the 1950s and 1960s, when Televerket participated in developing aid projects in Africa, the Middle East and Asia, mostly funded from the Swedish Government's developing aid budget<sup>60</sup>. Televerket was also active in organising courses for telecommunications authorities from developing countries<sup>61</sup>. In 1968 a separate consulting company, Swedtel, was established, being the first operator-owned consulting company in the industry<sup>62</sup>. Later Swedtel was also engaged in projects in developed countries, often in cases in which it and/or Televerket had invested in companies in these countries, and in some consulting projects for multinational companies<sup>63</sup>.

### Opportunistic International Investments

Coming into the 1990s Televerket began to look for more significant international investment opportunities in the traditional telecommunications sector. At that time also the level of development aid channelled by the Swedish Government to telecommunications projects was decreasing. One indication of this more active approach was the establishment of Swedish Telecom International AB (STI) in 1989, a wholly-owned subsidiary to manage the company's international operations. Televerket had set a clear objective to become an international player.

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<sup>56</sup> This Nordic earth station in Gothenburg, Sweden was operated in cooperation with incumbent telcos from Denmark, Finland, Norway and Sweden. Also, in 1982 a JV, NOTELSAT, was established between Televerket and the Norwegian incumbent telco (also named Televerket at that time), to manage TELE-X project. However, this never developed to a commercial success (Lernevall and Åkesson (1997) in Hauknes and Smith (2002)).

<sup>57</sup> The first reported meetings between the Scandinavian telegraph administrations dates back to 1855 and Nordic telecom conferences have been organised since 1916 (Heimbürger (1968) in Hauknes and Smith (2002)).

<sup>58</sup> See more detailed explanation in the Sonera section. The world's first NMT services were launched in Norway and Sweden in 1981, followed by Denmark and Finland in 1982.

<sup>59</sup> CEPT (Conference Europeenne des Administrations des Postes et des Telecommunications); EURESCOM (the European Institute for Research and Strategic Studies in Telecommunications); ETNO European Public Telecommunications Network Operators' Association); and ETSI (European Telecommunications Standards Institute). When GSM technology was introduced, the company was also active in organisations such as GSM Association.

<sup>60</sup> Countries in which Televerket/Swedtel were active included Ethiopia, Namibia, Pakistan, and Sri Lanka.

<sup>61</sup> These included telecommunications authorities from countries such as Algeria, Ethiopia, Jordan, Qatar, Saudi Arabia and South Yemen.

<sup>62</sup> Swedish Telecommunications Consulting AB (Swedtel) was established to build, operate and transfer technology in the telecommunications networks in developing countries.

<sup>63</sup> These included multi-year projects for Shell Corporation in Nigeria and for SaudiNet, a company owned by Saudi Telecom.

As discussed in the Sonera section, following Estonia's process to independence from 1989 to 1991, both Sweden and Finland were involved in developing the new country's telephone infrastructure, first with some smaller scale NMT network building projects, but soon entering in negotiations with the Estonian Government to establish a mobile phone operator. Eesti Mobiiltelefon (EMT) was established, with Televerket owning 24.5% of the company, Telecom Finland 24.5%, and the Government of Estonia 51%. Following this cooperation with the Estonian Government, in 1992 the companies invested in the incumbent fixed-line operator, Eesti Telefon (Estelcom), with similar ownership shares<sup>64</sup>. Also, in 1991 both telcos, with a few local partners, established Latvijas Mobilais Telfons (LMT), a mobile operator in Latvia (Televerket and Tele again both with a 24.5% share)<sup>65</sup>.

In 1993 the company entered into a consortium with Telecom Finland and another Scandinavian telco, Norwegian Telecom (also named Televerket, later Telenor), and local Russian partners to establish North-West GSM, a GSM operator in the Northwestern Russia/St. Petersburg region<sup>66</sup>. Telia's ownership share in the company was 12.74%. In 1993 the company also invested in Pannon GSM Rt. (17%), a Hungarian mobile operator; in Omnitel (6.8%), an Italian GSM operator, and in RAM Mobile Data (5%), a UK-based mobile data provider (the Motibtex System)<sup>67</sup>. In 1994 Telia invested in another Mobitex provider, TDR (10%), a French company. Also, in 1993 Telia gained a licence in the UK to provide international calls to Sweden, Australia and Canada<sup>68</sup>.

In 1995 Telia invested in Netia Holdings SA (33%), the largest private fixed-line operator in Poland; in Mobile Telecommunications Ltd (MTC) (26%), a mobile operator in Namibia; in Otecel S.A. (28%), a mobile operator in Ecuador; in Digital Telecommunications Philippines Inc. (DIGITEL)(10%), a fixed-line operator in the Philippines; and in JT Mobiles Ltd (later Bharti Mobile Ltd) (26%) and Punwire Paging Services Ltd (49%), a GSM and a paging operators in India, respectively. In the same year the company also acquired Stofa A/S, Denmark's second largest cable TV operator<sup>69</sup>.

In 1996 Telia acquired Telivo Oy, a Finnish full-service challenger operator (later Telia Finland Oy); a majority of Suntel Ltd (55%), a Sri Lankan fixed-line and mobile operator; and a DCS mobile licence in Denmark. It also invested in Eircom Plc. (14%), an Irish full-service operator and in a minority share in Skycell, a Chinese regional mobile operator in Nantong province.

In 1996 the company also founded Telia Overseas AB. It was a separate company "*with the task of establishing, acquiring, developing and divesting telecom operators in various geographical markets with high growth potential*", as stated by its President and CEO, Per O. Pedersen (Telia Overseas, Annual Report 1997, p.4)<sup>70</sup>. Many of Telia's international share holdings were transferred to Telia Overseas<sup>71</sup>.

In 1997 the company continued its active internationalisation by investing in Peoples Telephone Company Ltd (11%), a Hong Kong-based mobile operator (DCS), and making a small investment in Colombia, with regards to Swedtel's consulting project for Capitel, a fixed-line operator<sup>72</sup>. The company also established a wholly-owned subsidiary, Telia Norge AS, which started to provide virtual fixed-line and internet services.

In 1998 the company continued its cooperation with Telecom Finland and acquired a majority of a Lithuanian GSM operator UAB Omnitel (both with equal 27.5% shares) and the incumbent fixed-line operator AB Lietuvos Telekomas (both 30%)<sup>73</sup>. In the same year it also invested in TESS S.A. (49%), a Brazilian mobile operator in the state of São Paulo; in MTN Uganda Ltd (30%), a mobile operator in Uganda; and in Si.Mobil (29%), a

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<sup>64</sup> Televerket was already selected as a sole foreign partner for Eesti Telefon, when Tele was able to enter the negotiations afterwards, partly using its CEO Pekka Vennamo's good contacts with Estonian key politicians (Vennamo, 1999). Also, for Televerket this offered an opportunity to share risks in the investment.

<sup>65</sup> A Memorandum of Understanding was signed in 1991 and LMT launched its service in 1995.

<sup>66</sup> Later North-West GSM acquired some smaller Russian GSM operators, including in the Moscow region, and changed its name to MegaFon (in 2002). See more detailed description of North-West GSM in the Sonera section.

<sup>67</sup> Other international telcos in the Pannon GSM consortium were Dutch PTT (KPN), Norwegian Telecom (Televerket, later Telenor), Telecom Finland, and Telecom Denmark (the leading telco in the consortium). The rest of the consortium members were three local companies.

<sup>68</sup> In 1995 Telia became both a licensed national and international operator in the UK. The UK market was providing a learning opportunity on how to operate in a competitive environment, thus preparing the company for the larger scale opening of the competition in European telecommunications market in 1998.

<sup>69</sup> Prior to this, Telia had already opened a subsidiary in Denmark, as will be discussed further in the section discussing B2B operations.

<sup>70</sup> Telia became the major shareholder in Telia Overseas (65%), but it also included other shareholders: Sweden's largest insurance company Skandia, and two large Scandinavian investment companies, Orkla from Norway and Ratons from Sweden.

<sup>71</sup> One key difference between Telia Overseas and STI was that Telia Overseas had external investors, thus providing sufficient financial resources to make necessary investments in overseas telcos but also to provide more flexibility in decision making process, compared to the still relatively rigid process of a fully government-owned organisation. Also, the focus of Telia Overseas was on markets outside Europe.

<sup>72</sup> Capitel was a new challenger operator in Colombia's capital Bogota, a co-project with Colombian Telecom, Ericsson, Northern Telecom, and Siemens.

<sup>73</sup> The Lithuanian government remained a minority owner in AB Lietuvos Telekomas with a 40% share.

mobile operator in Slovenia. In 2000 the company made a significant investment in acquiring Netcom ASA, a Norwegian mobile operator<sup>74</sup>.

In spite of the very active internationalisation activities throughout 1990s and in 2000, Telia was relatively cautious in the European 3G licence auctions in 2000 and 2001, thus also avoided the most pricey and risky outcomes in markets such as France, Germany, Italy and the UK<sup>75</sup>. Telia was even left out of a licence in Sweden, the only incumbent operator in the world not granted a licence in its home country, although it later entered in a cooperation project with Tele2 to build a shared 3G network under its licence. Also, although Telia had some, mostly B2B-based operations in the US, it never made significant investments in North American markets.

### Expanding to Goods and Other Services, and ‘Born Globals’

Televerket had also made some opportunistic and diversified investments (in other than telco sector) in international operations since the 1980s, including Diab AB, a Unix computer producer; Nerion, a Norwegian electronics manufacturer; TeleDelta AB; TeleLarm AB, a security systems provider (in 1985 also a JV, Asian Protection (Apron), in Singapore with a UK-based partner); Telelogic AB, a software design company (in 1986 Televerket acquired Telesoft Inc, a US-based software company and merged it with Telelogic in 1989; locations for Telelogic’s subsidiaries began to include other distant markets, such as Australia in 2000; Telelogic’s customers included other telcos, such as AT&T, Italtel, and Telefonica); Swedcom AB, a telecommunications systems developer (for example, in 1985 projects/subsidiaries in countries such as Singapore and New Zealand). The largest of these types of subsidiaries was Teli AB, a telecommunications equipment manufacturer (for example, telephones, facsimile machines, and PBXs), which provided equipment for Televerket’s own needs, but also exported its products<sup>76</sup>.

In 1980 Televerket had already established Teleinvest AB to manage separate subsidiaries, and as mentioned earlier, in 1989 it founded STI to manage many of these and other future international operations.

In 1991 the company established a new subsidiary, TeleMedia AB, into which it transferred its directory businesses. During the 1990s TeleMedia established subsidiaries in many countries and had activities altogether in 18 countries<sup>77</sup>.

During the technology/telecom boom in the late 20<sup>th</sup> and early 21<sup>st</sup> century, the company acquired, invested in, and established new global/international service businesses, mostly in the internet and mobile sectors. These included the establishment of Speedy Tomato AB in 2000, a mobile portal provider; an investment in Drutt Corporation (25%), a US-based JV between Telia, Oracle, and the employees, that developed mobile messaging services/portals; and it also owned 50% of Slottsbacken Venture Capital KB, a fund which invested in ICT-companies<sup>78</sup>.

### De-internationalisation Developments

Already during the most rapid internationalisation phase, Telia sold its shares in a few of its international investments: in 1996 it sold its 17% share in Pannon GSM to the other telco partners; in 1997 it sold its shares in OmniTel in Italy; in 1999 the company was forced to sell its Norwegian subsidiary, Telia Norge AS, during the failed merger process with Telenor; and in 2000 it sold its ownership in SkyCell to China Unicom due to regulatory changes<sup>79</sup>. For the most part, these were exceptions. However, after the very rapid internationalisation phase in the 1990s and early 21<sup>st</sup> century, and following the telecom bust, this strategy changed significantly. Telia started to retreat from many distant target markets and to divest many of its non-core businesses. In 2001 it sold its shares in TESS SA to Telecom Americas, in Si.Mobil to Austrian mobile operator Mobilkom, in Eircom

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<sup>74</sup> Prior to this Telia had an unsuccessful merger attempt with a Norwegian incumbent operator Telenor in 1999, during which process it also had sold its Norwegian subsidiary Telia Norge AS to Enitel. The Telia and Telenor merger attempt will be discussed further later in this appendix.

<sup>75</sup> Telia was granted 3G licences in Denmark and Finland, and also in Norway through Netcom ASA, but in all of these cases the absolute cost and also the cost per capita for a licence was much less than in the largest and most competed licences for the largest European markets.

<sup>76</sup> Teli AB’s export markets included European countries, such as Germany, the USA, the South American markets (in cooperation with Telefonica), and the Middle East and Iran.

<sup>77</sup> Since 1992 TeleMedia made acquisitions and launched directory services in countries such as Norway, Estonia, Latvia, Russia, Lithuania, Belarus, the Netherlands, the US, Denmark, Austria, Poland, and Ukraine. Later TeleMedia changed its name to Telia InfoMedia AB. In 2000 it changed its name again, now to Eniro AB, and was listed on the Stockholm Stock Exchange.

<sup>78</sup> Speedy Tomato AB was an operator-independent mobile portal, which quickly established operations in the UK, Denmark, Finland, and Italy.

<sup>79</sup> Telia stated that the reason for the divestment of Pannon GSM shares was its objective to focus more on majority ownerships within its European investments. One main reason for Telia to sell its shares in OmniTel was to show the Board and investors in Telia Overseas that the strategy of investing in overseas telcos was successful. Telia’s investment in OmniTel was very successful in relative terms. The proceedings from the sale were then used in new investments in South America.

to Vodafone, and it also sold the fixed-line business of its Finnish operations (Telia Finland Oy) to Song Networks<sup>80</sup>. In addition, it practically wrote off its investment in Netia in Poland. In 2002 Telia also sold its shares in Bharti Mobile<sup>81</sup>.

In addition to retreating from several non-core markets, Telia also divested many businesses as the products and/or services did not fit its overall strategy anymore. It had sold its manufacturing arm, Teli AB, to L M Ericsson in 1993. However, the most active de-internationalisation phase with regards to product strategies started after the millennium. In 2001 Speedy Tomato AB retreated from Italy and the UK, and later the whole company was scaled down<sup>82</sup>. In 2001 Telia also sold Swedtel to Industri Kapital, a Swedish investment company, and also sold its shares in Eniro, a year after the company's stock listing<sup>83</sup>.

### Failed Bids

During the active internationalisation period the company was also engaged in many bids and project plans that were never realised. These included a bid in 1991 in Poland for an analogue cellular network; a bid in 1993, together with Deutsche Telekom, to acquire shares in the privatisation process of LatTelekom in Latvia; and Telia Overseas/Swedtel's bids in countries including Israel, Senegal, and Taiwan<sup>84</sup>. The company reported also some interests in 1991 for a JV in Belgium with RTT (the Belgian PTT); in 1997 in El Salvador (privatisation of ANTEL); in 2002 in Nigeria (privatisation of Nigerian Telecommunications Limited, NITEL)<sup>85</sup>.

One of the biggest setbacks in Telia's international expansion was its failed merger with the Norwegian incumbent Telenor in 1999. The negotiations between the two CEO's, Lars Berg and Tormond Hermansen respectively, started in 1997, and in 1999 the companies decided to merge. However, there were significant political disagreements between the Swedish and Norwegian Governments on many issues, such as the location of the headquarters of the main business units, and nomination of the key managers and board members. The merger was abandoned a few months later in December 1999. The reasons for the failure were reported to be historical sentiments, nationalism, a 'big brother – little brother syndrome', and a lack of personal trust between the partners (Fang and Schultzerberg, 2004)<sup>86</sup>. This failure was a significant issue, as culturally (including the languages) and geographically Sweden and Norway are very close to each other, thus there were high expectations for a successful outcome<sup>87</sup>.

### Merger with Sonera and Focus on One's Own Region

As mentioned earlier, Nordic telcos were engaged in many different cooperation activities with each others, and as there was a perception that the telecommunications services sector was consolidating, there were frequent rumours about mergers and acquisitions between the Nordic telcos<sup>88</sup>. After the merger with Telenor failed, Telia started to look more closely for opportunities to combine resources with Tele Denmark and/or Sonera in Finland. At the same time Sonera was facing some significant financial challenges resulting from its very aggressive strategy with regards to the European 3G licences. This softened the way to merger talks between the two main owners, the Swedish and Finnish Governments. In March 2002 these negotiations resulted in a merger between Telia and Sonera, and a new company, TeliaSonera AB, was formed (operational since Jan 1 2003), of which the Swedish Government owned 45%, and the Finnish Government 19%<sup>89</sup>. The headquarters of the company was located in Stockholm, Sweden<sup>90</sup>.

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<sup>80</sup> In retro perspective it can be seen that this divestment was related to Telia's plans to merge with Sonera, which realised later in 2002.

<sup>81</sup> The deal was finalised in 2003.

<sup>82</sup> The company was officially divested in 2005.

<sup>83</sup> Swedtel (at that time Telia Swedtel AB) was sold together with seven other companies from Telia's Enterprises division. Telia received a 49% share of Industri Kapital 2000 Fund to which these companies were transferred (and many of them later sold by the fund).

<sup>84</sup> Also, in Lithuania, the company was involved in a winning bidding consortium already in 1992 but the Lithuanian government backed off from the deal. It was not until 1998 when the government finally privatised its telecommunications companies and Telia, together with Sonera, were able to acquire shares in AB Lietuvos Telekomas and UAB Omnitel, as discussed earlier in this section.

<sup>85</sup> The negotiations with RTT were related to Televerket's/Telia's Unisource cooperation, discussed more later.

<sup>86</sup> Lars Berg had left Telia before the official negotiation process started and in March 1999 became the head of the telecommunications business in Mannesmann AG, a large German conglomerate.

<sup>87</sup> As mentioned earlier, during the merger process in 1999 Telia was forced to sell its Norwegian subsidiary, Telia Norge AS. After the merger failed, it later, in 2000, acquired NetCom ASA, the second largest mobile operator in Norway, and in 2006 Chess Communication AS, a virtual mobile operator and NextGenTel AS, the second largest internet service provider in the country.

<sup>88</sup> The CEOs of Telia and Sonera had discussed possibilities for a merger or other type of cooperation already in the 1990s, for example, by combining the resources of the companies' fixed-line/data and mobile businesses so that the former one would be managed in Sweden and the latter in Finland, thus utilising the relative core competences of each partner. (Vennamo, 1999; interviewees from Sonera and Telia)

<sup>89</sup> Before the merger Sonera had written off its investments in European 3G licences and also the Finnish Government had made a EUR one billion capital injection to rescue the company.

<sup>90</sup> Many perceived that this was rather an acquisition by Telia, than a merger of two equals. Several subsequent developments in the company, such as exits by many of the Finnish key managers and the major part of the decision making and ownership centralising heavily in Sweden, seem to support these views.

Naturally the merger was a major internationalisation event for both companies. In addition, the merger brought many synergies in other international markets, as the companies were already co-owners in several telcos in Estonia, Latvia, Lithuania, and Russia<sup>91</sup>. As a result of the larger combined ownership share TeliaSonera's power and control of these international entities increased. It had become the leading telco in the Nordic and the Baltic regions. In addition, Sonera had ownership interests in mobile operators in some very prospective and growing markets, such as Turkey and in Central Asia.

Already prior to the merger both Telia and Sonera had shifted their strategic focus more towards the home region and divested many of their non-core businesses. After the merger these developments accelerated further. In 2003 TeliaSonera was required to sell Telia's Finnish mobile business and ComHem AB, Telia's Swedish cable TV subsidiary, due to competition rulings. The company also established a separate unit, TeliaSonera Holding, to manage and rationalise companies in non-core businesses. During the following years it divested its ownership in many companies outside its 'home markets': in 2003 it sold its shares in MTC in Namibia; in 2006 in MTN Uganda; and in 2007 in Suntel in Sri Lanka<sup>92</sup>.

With regards to a more focused product strategy, the company sold 54% of Sonera SmartTrust AB's shares in 2002 (and later sold the rest); sold its shares in Metro One Telecommunications, Inc. during 2003/04; divested Telia Finans AB (Telia's financing company), Sonera Zed, and sold its shares in Slottsbacken Venture Capital in 2004; and in Drutt Corporation in 2007. Also, the company made a statement to refrain from any future investments with regards to the 3G licences that Sonera had auctioned in Germany, Italy and Spain<sup>93</sup>.

TeliaSonera's new strategy was to focus on its home markets, which were the Nordic and Baltic countries, and increase its ownership in its existing subsidiaries and associated companies. In addition, the rapidly growing mobile markets in Russia, Turkey and Central Asia comprised significant potential. In Lithuania TeliaSonera acquired a further 35% of UAB Omnitel from Motorola in 2003, and later in 2004 the remaining 10% from other owners, making the mobile operator its wholly-owned subsidiary. In Estonia TeliaSonera was able to gradually increase its ownership in Eesti Telekom, first in 2004 to 50.3%, and later to over 60%<sup>94</sup>. In Denmark the company strengthened its relatively modest market position by acquiring international mobile operator Orange's Danish subsidiary (Orange A/S) from France Telecom<sup>95</sup>. Also, in 2005 TeliaSonera, after a long and complex process, was able to increase its ownership in Turkcell from 37% to 64%. In addition, TeliaSonera owned 74% of Fintur Holdings, which in turn owned controlling stakes in Azerzell (51.3%), Geocell (83.2%), K Cell (earlier GSM Kazakhstan) (51%) and Moldcell (77%). Of these the company was able to increase its ownership in Moldcell to 100% in 2004 and in Geocell to 97.5% in 2007.

In spite of the setbacks with regards to the whole European 3G licence process and the very cautious strategy that followed, in 2006 TeliaSonera ended up increasing its ownership share in Xfera Móviles in Spain from 14% to 76.6%. It made a national roaming agreement with Vodafone to rent network capacity (2G) and changed the name of the company to Yoigo. Many analysts and the media questioned this move as it did not seem to fit the overall strategy of the company<sup>96</sup>.

In spite of the apparent ease with which the company was able to increase its ownership share in many of its investments, this process created some significant challenges, as in some countries the excessive control by an overseas investor was perceived to be threatening, and in some other countries the company ended up in difficult arguments with local partners<sup>97</sup>. For example, in Turkey, the ambition to increase its ownership from 37% to a majority owner resulted in a bitter power struggle with the Turkish main owner, the Cukurova family. Also in Russia, TeliaSonera has been influenced by a complex power struggle between MegaFon's other owners over the control of the company.

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<sup>91</sup> TeliaSonera's combined ownership shares were 49% in EMT and Eesti Telefon in Estonia, and in LMT and LatTelekom in Latvia, 55% in Omnitel and 60% in Lietuvos Telekomas in Lithuania, and 44% in MegaFon in Russia.

<sup>92</sup> In practice all of the Telia Overseas' (the new name being Overseas Telecom AB) investments were listed as non-core. Also, the voting rights/ownership of Overseas Telecom AB was decreased from 65% to 42%, meaning that the company's status moved from a subsidiary to an associate company.

<sup>93</sup> As mentioned earlier, Sonera had written off the investments in these licences prior to the merger. This statement by TeliaSonera referred to any possible additional equity investments required by the other shareholders in the consortiums.

<sup>94</sup> Eesti Telekom had become a holding company that owned both EMT, the mobile company, and Eilon, the newly named fixed-line company, in Estonia.

<sup>95</sup> After the Orange A/S acquisition and its merger with Telia's Danish mobile operations, Telia became the number two mobile operator in Denmark.

<sup>96</sup> One reason for the company to increase its investments in Xfera/Yoigo were related to the terms of the 3G licences in Spain. There were sanctions of not building the 3G network/giving the licence back, that would have costs EUR 900 million for the whole consortium, of which TeliaSonera's share would have been EUR 217 million (Kauppalehti, 200x). In any case, the task seem to be challenging as Yoigo had to start from scratch and compete against large existing players, who already have a strong 2G customer base in the country.

<sup>97</sup> For example, in the Baltic states many politicians and in the media argued against these developments.

To further demonstrate the challenges of cross-border ownership in the industry, the cooperation between the Swedes and Finns within TeliaSonera has not been a smooth process either. Media on both sides of the Gulf of Bothnia have stated their displeasure with the many decisions made by the company, and politicians have criticised some of the events. Already during the merger negotiations the board nominations were an important issue, especially for the Finnish Government, who ceded control of Sonera in the deal<sup>98</sup>. During the next few years following the merger the Finnish Chairman of Board and the deputy CEO were forced to leave the company/resigned due to arguments with the Swedish CEO and Board members<sup>99</sup>. Even with all these challenges and the politics involved, the TeliaSonera case seems to be the best example of a cross-country merger in the industry so far.

### B2B offices

With regards to their B2B activities Telia's internationalisation strategy was similar to many other business services. Sweden, although a small country, had a relatively high share of large MNEs. Thus, with its B2B operations Telia followed its customers abroad. As Televerket's Director General Tony Hagström stated: *"We must follow our customers out into the world and Europe."* (Hast, 1992).

Starting from the early 1990s Televerket/Telia opened B2B/liaison offices in developed countries, both in close markets and in the leading business centres in the world, such as Denmark, Norway, the UK (1992), and the USA (1997)<sup>100</sup>. These first activities in this business area were also closely linked to Televerket's cooperation in the Unisource alliance, as will be discussed further in the next section. As mentioned earlier, in the UK the company gained a licence to provide international (and later also national) call and data services, targeting also SME customers (through retailers).

Some of Telia's largest investments were related to its B2B businesses. Telia International Carrier (TIC), the company's wholesale division, built a large carrier network, the Viking Network, to provide voice and data connections throughout Europe, and between Europe and the US<sup>101</sup>. With this network the key customer group was other operators and internet service providers. Throughout the 1990s TIC opened offices/subsidiaries across Europe, in the US, and in Asia<sup>102</sup>. In the US it also acquired an internet infrastructure service provider AGIS<sup>103</sup>

However, the rapid building of network capacity globally in the late 1990s and early 21<sup>st</sup> century and the following telecom bust resulted in over capacity and declining prices in the sector. Telia was not an exception and the Viking Network proved to be a very risky and costly exercise for the company, generating significant losses. Since the late 2001 a change in strategy and a de-internationalisation phase followed, during which TIC terminated many of its international offices and centralised activities back to Sweden<sup>104</sup>. In 2004 TeliaSonera wrote off the whole book value of TeliaSonera International Carrier (the merged international carrier businesses of both Telia and Sonera).

### International Strategic alliances

As mentioned earlier, Telia was active in many multilateral and bilateral cooperation activities. Some of these developed into more formal alliances, including some equity investments. In addition to acquiring equity interests in international telcos, the company perceived that it needed to be engaged in international strategic alliances to balance its limited size compared to the largest players in the industry<sup>105</sup>.

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<sup>98</sup> In spite of the Finnish requirements for equal board nominations between the two nations, the Swedish law that required union participation in company boards resulted in Swedes having two more members in the Board than Finns. Because of this, the Finnish unions stated their concerns that TeliaSonera's restructuring decisions and sackings would disproportionately discriminate the Finnish employees.

<sup>99</sup> Since these developments many other Finnish top managers have left the company and in 2009 only one out of ten top managers of the company was a Finn and only one business unit was operated mainly from Finland, the Eurasian operations. Also, the Swedish state has not yet sold any more of its shares in the company, although this was an intention when the merger was published.

<sup>100</sup> Both Telia's offices and subsidiaries in Denmark and Norway were originally established to be Unisource's local representatives, but later became to form the basis of Telia Denmark and Telia Norway subsidiaries.

<sup>101</sup> By 2001 the network consisted of 40,000 km of fibre optic cable, including locations in 50 European and the US cities, and several submarine cables between Europe and the US. TIC became the leading European network carrier of IP capacity between Europe and the US. The name Viking Network referred to the history of Scandinavian Vikings, warriors that explored and raided large parts of Europe and the world beyond (Telia's Annual Report, 1999).

<sup>102</sup> TIC had offices in Austria, Belgium, Czech Republic, Denmark, Finland, France, Germany, Hong Kong, Hungary, Italy, the Netherlands, Norway, the Philippines, Poland, Russia, Singapore, Spain, Switzerland, the UK, and USA.

<sup>103</sup> Telia acquired Apex Global Information Services Inc. (AGIS) in 2000, which then formed the majority of the operations for Telia Internet, Inc., Telia's subsidiary in the US.

<sup>104</sup> For example, in order to cut costs and achieve positive cash-flows TIC closed many of its European and all of its Asian offices in 2002 and 2003, and retreated from selling national voice services in the UK and national data capacity in the US (it divested Telia Internet, Inc. only 18 months after the AGIS acquisition). During this restructuring/de-internationalisation phase TIC's workforce was reduced more than 50%.

<sup>105</sup> For example, Tony Hagström, the Director General of Televerket emphasised these issues in his open letter to the employees (Hast, 1992).



In 1987 the company invested in a 48% share in Scandinavian Telecommunications Services (STS), a data services joint-venture between Nordic incumbent telcos, in which Televerket was the largest partner. In the following year Televerket also became a partner in Infonet Services Corporation (Infonet), with a 5.38% equity share. Infonet was an US-led alliance providing global data services to MNEs and consisted of 10 leading telcos from Europe and the Asia-Pacific. In the early years Infonet cooperation arrangements in Scandinavia was managed by STS. However, in 1991 STS ended its activities due to disagreement between the partners in cost sharing and competition between their respective domestic operations. Also Infonet faced challenges over the year because of rising conflicts of interest between its partners and over the years many of them withdrew from the alliance<sup>106</sup>.

In 1991 Televerket extended its earlier cooperation with Koninklijke PTT Nederland N.V. (KPN) to establish Unisource B.V., an equity-alliance/JV to provide international data services to MNEs<sup>107</sup>. In 1993 Swiss PTT (Swisscom) joined in and in 1995 also Telefonica de Espana SA (Telefonica) decided to invest in the alliance, all four owning 25% of the company<sup>108</sup>. In 1994 Unisource was looking for partners in Germany, France, Italy and the UK<sup>109</sup>. At that time Telia perceived Unisource to be a means for the company to internationalise aggressively beyond its own small domestic markets before the full deregulations of the telecommunications sector in Europe in 1998 (CEO Lars Berg in *Veckans Affärer*, 5 Sep 1994). In 1994 Unisource started to cooperate with AT&T and its global alliance WorldPartners, becoming one of its major partners<sup>110</sup>.

However, these types of alliances were not successful due to growing conflicts of interest between the partners the further competition in the industry opened. Telefonica left Unisource in 1997, and in 1998 and 1999 AT&T terminated WorldPartners alliance and its cooperation with Unisource. Also the Unisource alliance was terminated during 1999/2000. Moreover, the role of the Infonet alliance diminished over the years and it was terminated in 2005, when British Telecom bought the company, including TeliaSonera's 20% shareholding. During the years 2003 to 2005 TeliaSonera also divested its small equity shares in INMARSAT, INTELSAT, and EUTELSAT.

In addition to the abovementioned alliances in providing data and other telecommunications services to MNEs, in 1993 the five Nordic telcos expanded their cooperation and established Centob, a common telecommunications consulting venture in Brussels, Belgium. However, this never developed into a long-term and/or a very meaningful operation.

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<sup>106</sup> In 1993 MCI Communications Corporation exited from the alliance due to its new JV with British Telecom and other partners acquired MCI's shares. Telia's ownership share in Infonet increased to 7.2%. Later Infonet partnered with AT&T in the US. In 1995 also France Telecom and Deutsche Telekom withdrew from the alliance, as they established a competing entity, Phoenix, with the US-based Sprint. During these developments Telia increased its ownership to 20%.

<sup>107</sup> Prior to Unisource, in 1990, Televerket and KPN had cooperated in a JV Vesatel B.V., a satellite communications provider.

<sup>108</sup> All of the equity partners planned to move their international networks and related offices to the new company, which was meant to become one of the major players in the world's telecommunications market. The US-based Sprint had joined Unisource as a non-equity partner in 1992, although later the US partner changed to AT&T.

<sup>109</sup> Telia's plan was also to merge its UK-based subsidiary, Telia International UK into Unisource.

<sup>110</sup> It was also perceived that by forming an alliance such as Unisource, the smaller European telcos would become a more even alliance partner with larger telcos, such as AT&T. Other partners in WorldPartners included KDD of Japan, Singapore Telecom and Telstra from Australia.

## Appendix 8 b

<b>History of Telia and the Swedish Telecommunications Sector</b>	
<b>Year</b>	<b>Company Event &amp; Related Event</b>
1853	Sweden's first telegraph line between Stockholm and Uppsala. Kongliga Elektriska Telegraf Verket (the Telegraph Agency) was established.
1877	Sweden's first telephone calls made
1918	Telegrafverket gains a de facto monopoly of the Swedish telecommunications market.
1953	Telegrafverket changes its name to Televerket.
1980	Modest competition started in cellular telephone services. Jan Stenbeck's Comvik Skyport AB (after acquiring AB Företagstelefon) began providing cellular phone services nationally. (Comvik was not granted a permission to use the new NMT technology, so the service was still based on old non-automatic systems and with limited number of allocated frequencies.)
1981	NMT (Nordic Mobile Telephony) service opened in Sweden. (The first call was made in Tampere, Finland in 1978, and the service opened in 1981 in Sweden and Norway, with Denmark and Finland following the next year.)
1983-1989	Market for terminal equipments for the telecommunications networks began to open gradually. 1983 low speed modems; 1984 telex; 1985 telephone handsets/phones; 1988 high speed modems; and 1989 PBXs/switches
1984	Televerket becomes a state-owned enterprise with a separate budget from the state.
1988	Comvik Skyport AB was granted a licence to open a satellite-based international calls service between Sweden and the US.
1988 (1992) 1990	Comviq GSM (Comvik had change the last letter in their name) was granted a GSM licence (operations started in 1992) Europolitan was granted another GSM licence in 1990
1991	Comvik Skyport was granted the second national fixed-line licence (internet access and fixed-line licence). The operation was launched in 1993. Later the company changed its name to Tele2.
1992	The Swedish National Telecom Agency was established as a separate regulatory agency. Prior to this Televerket had also been responsible for the regulatory issues. Later the regulatory organisation was named the Swedish National Post and Telecom Agency (Post and telestyrelsen, PTS).
1993	The Telecommunications Act 1993 (July 1). Swedish telecommunications markets liberalised, although licence was still required for provision of telecom services.
1993	Televerket became a state-owned limited liability company and changed its name to Telia AB (technically Televerket's assets transferred to Teleinvest AB, which then changed its name to Telia AB).
1997	The Telecommunications Act revised (to accommodate EUs directives)
1999	Sep 11, 1999. Competition was opened further, as customers could pre-select their operator without the need to dial an extra prefix code before each telephone call.
2000	Licences for 3G mobile communications were distributed in Sweden. Instead of an auction process, the licences were granted based on a criteria, including universal service, Four licences were granted and surprisingly Telia was not granted a licence, as the only incumbent operator in the world not granted a licence in its domestic markets. It was later able to negotiate a network sharing agreement with Netcom (Tele2).
1999	A failed merger attempt between Telia and the Norwegian incumbent Telenor
2000	In June Telia was listed on the Stockholm Stock Exchange and the Swedish Government sold 29.4% of its ownership in the company to Swedish and international investors.
2002	A merger between Telia and Sonera, the Finnish Government-owned incumbent telco, to form a new company, TeliaSonera AB with the headquarters in Stockholm, Sweden, and listed on the Stockholm and Helsinki Stock Exchanges, and ADRs quoted on NASDAQ National Market. The Swedish Government owned 45% of the new company, the Finnish Government 19%, and international institutional investors 29%.

## Appendix 8 c

Telia's most Important International Activities in a Chronological Order (including predecessors)				
Year	Event	Market	Operation	Product
Pre 1970s -	Multilateral and bilateral cooperation (e.g. ITU; Nordic cooperation, such as NORDTEL and the development of NMT; European forums, such as CEPT; Eurescom, ETNO, ETSI)	Global	Cooperation	E.g. interconnection, training, standards
1960s-	Development aid projects - Swedish Telecommunication Consulting AB (Swedtel) established in 1968 (Later: Swedtel International AB)  The company also organised courses for telecommunications authorities from developing countries	Africa, the Middle East, and Asia. Later involved in consulting projects in developed countries and/or for MNEs.  (e.g. Algeria, Ethiopia, Jordan, Qatar, Saudi Arabia, and South Yemen)	Transhuman export	Know-how/ (consulting projects)
1985-	Swedish-based subsidiaries that manufactured telecommunications products, developed software, provided services, and/or sold systems. These included: <ul style="list-style-type: none"> <li>• Teli AB</li> <li>• Diab AB</li> <li>• Telelogic AB/Telesoft</li> <li>• TelaLarm AB /Apron</li> </ul>	Sweden/International/ Global <ul style="list-style-type: none"> <li>• Europe, (e.g. Finland, Germany, Italy, Norway, Spain)</li> <li>• USA</li> <li>• Asia (e.g. Singapore)</li> <li>• The Middle East</li> <li>• Australia</li> </ul>	Wholly-owned subsidiaries => Exports => Some overseas subsidiaries/offices	Goods/Services/Systems <ul style="list-style-type: none"> <li>• Telephones, facsimiles, computer cards</li> <li>• Computers</li> <li>• Software</li> <li>• Security systems</li> </ul>
1985	Swedcom, e.g. Contract in Singapore for coastal radio stations Contract for telecommunications software, the New Zealand Post Office	Singapore  New Zealand	Wholly-owned subsidiary in Sweden => Management contracts / consulting	Know-how/Systems/Service (consulting projects / software)
1987	STS (Scandinavian Telecommunications Services AB) (together with other Nordic PTTs)	Nordic	Cooperation/alliance / Investment (48%)	System network/services (B2B data networks)
1988	Infonet Services Corporation	USA/International	Cooperation/alliance / (5.38%) >(later 7.2%> 20%)	System network/services (B2B data networks)
1989	Swedish Telecom International (STI)	Sweden/Global	Wholly-owned subsidiary in Sweden to manage international operations	
1990/91	Unisource B.V.	Europe/Global  (The first HQ in the Netherlands, later in Switzerland)	Cooperation/alliance/ Investment (50%) with KPN >(later 25% when Swisscom and Telefonica joined > 33% when Telefonica left)	System network/services (B2B data network services, messaging services, satellite links)
1991	TeleMedia AB (Televerket's directory business corporatized) (later Telia InfoMedia AB) (since 2000 Eniro AB)	International (18 countries, mostly Europe, but also the US)	Wholly-owned subsidiary in Sweden => Exports => Some overseas subsidiaries/office	Services (business directory)
1991/92	AS Eesti Mobiiltelefon (EMT) – NMT/GSM operator	Estonia	Investment (24.5%) >(TeliaSonera 49%)	Systems/network (mobile operator)
1991 (1995)	Latvijas Mobilais Telfons SIA (LMT) – GSM operator (The service was launched in 1995)	Latvia	Investment (24.5%) >(TeliaSonera 49% >60.3%)	Systems/network (mobile operator)
1992	AS Eesti Telefon, a JV with Estonian Telecom (together with Sonera) to modernise Estonia's telephone network (Later the fixed-line operator was named Eilon and Eesti Telecom became holding company for both EMT and Eilon)	Estonia	Investment (24.5%) >(TeliaSonera 49% >50.26% >51.55%)	Systems/network (fixed-line operator)
1992	Telia International UK (TIU) (in 1993 a licence for international calls to Sweden, Australia and Canada) (later integrated with TIC)	UK	Wholly-owned subsidiary	System network/services (International calls, B2B data networks)

1992-	B2B offices (early operations also related to Unisource cooperation) <ul style="list-style-type: none"> <li>• Telia Denmark</li> <li>• Telia Norway</li> <li>• Telia International UK (TIU) – see above</li> <li>• Telia North America, Inc. (1997)</li> </ul> Later integrated to Telia International Carrier (TIC), Telia's wholesale network division. The Viking Network, a voice and data network across Europe and between Europe and the US)	Austria, Belgium, Czech Republic, Denmark, Finland, France, Germany, Hungary, Italy, Luxemburg, Netherlands, Norway, Poland, Russia, Spain, Switzerland, and UK  USA  Hong Kong, The Philippines, Singapore,	Wholly-owned subsidiaries/liason offices	B2B offices  System network/services (B2B data networks / Carrier networks)
1993	North-West GSM (Mobile licence) (Later North-West GSM acquired more regional operators, expanded to the Moscow region, and changed its name to MegaFon.)	Russia (North-Western region: e.g. St Petersburg; later also Moscow and other parts of Russia)	Investment (12.74%) >(later MegaFon, 8.1%) (Later TeliaSonera 43.8%)	Systems/network (mobile operator)
1993	Omnitel – GSM operator	Italy	Investment (6.8%)	Systems/network (mobile operator)
1993	Centob	Nordic/International (Office in Belgium)	Cooperation/alliance Transhuman export	Know-how/ (consulting projects)
1993	Pannon GSM Rt. – A consortium to own a GSM operator	Hungary	Investment (17%)	Systems/network (mobile operator)
1993	RAM Mobile Data	UK	Investment (5%)	System (mobile data ; the Mobitex system)
1994	TDR	France	Investment (10%)	System (mobile data ; the Mobitex system)
1994	WorldPartners (Unisource joins WorldPartners, a global alliance initiated by AT&T)	Global	Cooperation/alliance	System network/services (B2B data networks)
1994-	Telia Denmark (see also above, TIC) Telia A/S (in 1995 acquired Stofa A/S, which was named Telia Stofa A/S) (in 1996 gained a DCS licence) (in 2000 acquired Powercom, a network operator and Jysk Central Antenne A/S) (in 2004 acquired Orange A/S, a mobile operator)			B2B offices  Systems/network (fixed-line operator, mobile operator, cable TV operator)
1995	Mobile Telecommunications Ltd MTC – GSM operator	Namibia	Investment (26%)	Systems/network (mobile operator)
1995	Netia Holdings S.A. (Poland's largest private fixed-line operator)	Poland (mainly in rural areas)	Investment (33%) >(later 48%)	Systems/network (fixed-line operator)
1995	JT Mobiles Ltd. (Later Bharti Mobile Ltd.) – GSM operator	India	Investment (26%)	Systems/network (mobile operator)
1995	Otecel S.A.	Ecuador	Investment (28.28%)	Systems/network (mobile operator)
1995	Punwire Paging Services Ltd.	India	Investment (49%)	Systems/network (paging operator)
1995	Digital Telecommunications Philippines Inc. (DIGITEL)	The Philippines	Investment (10%)	Systems/network (fixed-line operator)
1996	Telia Overseas AB (Later Overseas Telecom AB)	Sweden/Global	Investment (65%)	Investment/holding company - Mostly mobile investments
1996	Skycell – GSM operator	China (Nantong province)	Investment (minority)	Systems/network (mobile operator)
1996	Suntel Ltd.	Sri Lanka	Subsidiary (55%)	Systems/network (fixed-line and mobile operator)
1996	Eircom Plc. (&Eircell) (through Comsource Ltd)	Ireland	Investment (14%)	Systems/network (full-service operator)
1996	Telivo Oy (Later Telia Finland Oy)	Finland	Wholly-owned subsidiary	Systems/network (fixed-line operator, later also mobile operator)

1997	Telia Norge AS (see also TIC) (sold to Enitel in 1999)	Norway	Wholly-owned subsidiary	Systems/network (fixed-line (virtual) operator)
1997	Telia North America Inc. (see also TIC) (In 2000 acquisition of AGIS > Telia Internet, Inc.)	USA	Wholly-owned subsidiary	Systems/network (data networks, internet carrier network)
1997	Peoples Telephone Company Ltd. (PTC) – DCS operator	Hong Kong	Investment (11%)	Systems/network (mobile operator)
1997	Capitel (Colombia Telecom - Swedtel cooperation?)	Colombia	Transhuman export & a small office	Know-how (consulting/management contract)
1998	UAB Omnitel – GSM operator (in cooperation with Sonera, and local partners)	Lithuania	Investment (27.5%) >(TeliaSonera 55% >90% >100%)	Systems/network (mobile operator)
1998	AB Lietuvos Telekomas (a JV with Sonera and the Lithuanian Government)	Lithuania	Investment (30%) >(TeliaSonera 60%)	Systems/network (fixed-line operator)
1998	TESS S.A. – GSM operator	Brazil (the state of São Paulo)	Investment (49%) by Telia Overseas)	Systems/network (mobile operator)
1998	MTN Uganda Ltd, consortium in Uganda – GSM operator	Uganda	Investment (30%) >(later 32%)	Systems/network (mobile operator)
1998	Si.Mobil – GSM operator	Slovenia	Investment (29%) by Telia Overseas)	Systems/network (mobile operator)
1999	Unsuccessful merger attempt with Telenor	Norway/International	Failed merger attempt	
2000	Speedy Tomato AB	UK, Denmark, Finland, Italy, USA	Wholly-owned subsidiary	Services (value-added services to mobile phones/portal)
2000	Netcom ASA – GSM operator	Norway	Subsidiary (100%)	Systems/network (mobile operator)
2000	Druitt Corporation (e.g. Halebop portal, which was later sold to Telia)	US/Sweden/ global	Investment (25%)	Services/systems (software developer: developing mobile messaging services/solutions/portals)
2002	TeilaSonera merger  New international operations for Telia: <ul style="list-style-type: none"> <li>• LatTelekom in Latvia</li> <li>• Turkcell in Turkey</li> <li>• Fintur Holdings, Central Asia/Eurasia</li> <li>• Xfera Móviles in Spain (later Yoigo)</li> <li>• (Sonera Zed)</li> <li>• (Sonera SmartTrust)</li> </ul> In addition, ownership share increased in <ul style="list-style-type: none"> <li>• EMT in Estonia</li> <li>• Elion (Eesti Telefon) in Estonia</li> <li>• Latvijas Mobilais Telefons in Latvia</li> <li>• UAB Omnitel in Lithuania</li> <li>• Lietuvos Telekomas in Lithuania</li> <li>• MegaFon in Russia</li> </ul>	Sweden- Finland  Latvia Turkey Central Asia: <ul style="list-style-type: none"> <li>• Azerbaijan</li> <li>• Georgia</li> <li>• Kazakhstan</li> <li>• Moldova</li> </ul> Spain	Merger  LatTelekom (49%)  Turkcell (37%) >(later 64%)  Fintur (74%)  Xfera (14%) >(later 76.6%)  Others – see new ownership shares in the specific company/country information above.	Systems/network (mobile operators)

## Appendix 8 d

<b>Summary of the Internationalisation Strategies of Telia</b>				
	<b>Product</b>	<b>Operation</b>	<b>Market</b>	<b>Organisation</b>
Domestic Phase	DIVERSIFIED (Domestic) Highly (vertically) integrated telecommunications services in Sweden. International cable, data, telephone services targeted to Swedish customers	COOPERATION International multi- and bilateral cooperation with other telcos (e.g. NORDTEL, ITU, European forums); Satellite projects	DOMESTIC: Focus on domestic customers	DOMESTIC Domestic organisation structure
1960s-	NICHE Started international operations by selling consulting services (know-how)	EXPORTS (Transhuman)	GLOBAL: Focus on developing countries globally – in Africa, Asia, the Middle East	INTERNATIONAL International organisation structure (Swedtel)
1980s	NICHE Continued consulting projects – developing aid, but also to MNEs and developed countries Also some goods and hard-services / object-based services and systems (telephones, computers, software, security systems)	EXPORTS (Transhuman, hard-services/object-based services, goods).	GLOBAL: Focus on developing countries globally – in Africa, Asia, the Middle East, plus exports to developed countries	INTERNATIONAL International (Swedtel, STI, several subsidiaries under STI)
1988-1997	DIVERSIFIED Systems/networks: Data networks/cable systems Mobile operators Fixed line operators (Location-bound and asset-based services).  Continued goods/services/systems (e.g. directory services)  B2B: Active investments in region-wide/transatlantic data networks	FDI (minority) Investments in minority JVs  EXPORTS (Transhuman, hard-services/object-based services, goods).  B2B and Liaison offices - wholly owned subsidiaries  Alliances (Unisource, Infonet, WorldPartners)	GLOBAL: Opportunistic: Investments in geographically close markets in the Baltic States and Russia, but also globally  The first B2B offices in neighboring countries and in a few leading business centres in developed countries.	MULTIDOMESTIC Multidomestic organisation structure INTERNATIONAL In goods and non-telco services: International (STI, several subsidiaries) GLOBAL/ INTERNATIONAL B2B In B2B Global/ International organisation structure
1998-2000	MORE FOCUSED: More focused product strategy: Mobile clearly as a spearhead. Significant investments in systems/networks (Location-bound and asset-based services).  In addition, investments in global services businesses. Some venture capital investments in high-tech start-ups B2B Data services/networks	FDI (minority/majority) Investments in minority and majority JVs Increasing ownership share in selected overseas investments (not enforcing majority ownership) A few wholly owned subsidiaries and exports Diminishing role of alliances. Increasing focus on own data and voice network operations	GLOBAL/REGIONAL: Opportunistic market strategy: Global investments  B2B Active investments in networks, subsidiaries and offices throughout Europe, but also in the US (and at some level in Asia)	MULTIDOMESTIC Multidomestic organisation structure  GLOBAL In mobile service businesses, and carrier business a global organisation structure.  GLOBAL B2B
2001/02	MORE FOCUSED Divesting non-core operations, such as manufacturing and software companies, mobile value-added services business, IT-services, and directories.  B2B Data services/networks	DE-INTERNATIONALISATION: divesting non-core operations.	REGIONAL: Focus on the home markets: the Nordic countries, the Baltic states. De-internationalisation from other markets. Focus on Europe in carrier networks.	MULTIDOMESTIC Multidomestic organisation structure (GLOBAL In mobile service businesses, and carrier business a global organisation structure) GLOBAL B2B
2002/03- (Telia-Sonera)	INTEGRATED TELCO PRODUCTS (Bundling): Increasing convergence of the core telecommunications services: 'bundling' of mobile, fixed-line and data services.  Some focused strategies in Russian, Turkish and Eurasian mobile markets.	FDI Aim to move from minority to majority in subsidiaries & associates  Consolidation developments.	REGIONAL: Focus on the home markets: the Nordic countries, the Baltic states, and a few selected growth markets: Russia, Turkey and Central Asia/Eurasia Focus on Europe in carrier networks. REGIONAL B2B operations regional, with some global features)	TRANSNATIONAL The new merged entity, TeliaSonera, had many characteristics of a transnational organisation strategy.  GLOBAL B2B

# Appendix 9: Case Description Telstra

## Company History

Telstra's origins can be traced to year 1901 when the Postmaster-General's Department (PGD) was established to provide telephone and postal services in Australia (see also Appendix 9 b for 'History of Telstra and the Australian Telecommunications Sector'). A first overseas call was made in 1930 and in 1946 a separate organisation, Overseas Telecommunications Commission (OTC), was established to manage international telecommunications connections between Australia and overseas locations.

Under the 1975 Telecommunications Act the telecommunications operations were separated from the Post Office, resulting in the PGD being divided into separate entities in which the Australian Telecommunications Commission (Telecom Australia) was given the exclusive rights to provide telecommunications services in Australia. This was followed in 1989 by the establishment of the Australian Telecommunications Corporation, and in 1992 a merger between it and OTC led to the formation of the Australian and Overseas Telecommunications Corporation (AOTC). In 1993 the merged organisation changed its name to Telstra Corporation Limited (Telstra), although in the domestic market the name Telecom Australia was still used until July 1995.

Since the late 1980s deregulation has played an important role in the development of the Australian telecommunications industry. First, sales of telecommunications equipment and value added services were deregulated in 1989, followed in 1991 by the opening of competition in national long distance and international telephone calls (with the granting of the second fixed-network carrier licence to Optus Communications (Optus)). The mobile communications market was opened to competition in 1992 (Optus and Vodafone were granted licences to compete with Telecom Australia), and in 1997 the Australian telecommunications market was opened to full competition by the Telecommunications Act of 1997<sup>1</sup>. In that same year the government also sold one-third of Telstra to local investors and in 1999 it sold more shares whilst still maintained a controlling share of 51.1%<sup>2</sup>.

Together the abovementioned changes contributed to a decrease in control, prices and market share for the company in the domestic market, thus pushing it to internationalise. The company had already been engaged in various international operations, but now the need to internationalise increased significantly.

## Internationalisation Milestones

In this section the milestones of the company's internationalisation are reviewed (see also Appendix 9 c for chronological developments).

### International Calls, Cables and Satellites

The company's international involvement in telecommunications was strongly related to Australia's membership of the British Commonwealth. For example, its first international calls (1930) were made to London and OTC's early major investments in submarine cables were based on Commonwealth nations' cooperation<sup>3</sup>. Later OTC was engaged in many other international (multilateral) submarine telephone cable systems<sup>4</sup>. For decades its main international activities focused on cable and other systems mainly to provide services for Australian-based customers with their international connections.

Due to the Australian geography, that is, a large and distant country with sparse population over vast distance in regional Australia, the company has always been one of the front runners in satellite technology. In 1962 OTC was one of the ten founding members of the Interim Communications Satellite Committee (ICSC); a body to develop international satellite communications. In 1964 this cooperation led to the establishment of INTELSAT.

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<sup>1</sup> AAPT, Optus, Primus Telecommunications, and Telstra were granted the carrier licences. By the end of 2000 there were more than 60 licensed telecommunications carriers in Australia, although Telstra was still in relatively dominant position (Australian Competition & Consumer Commission's Report 2001).

<sup>2</sup> In Australia there were concerns that if Telstra's government ownership is reduced/sold to foreign investors, then this could result in decrease in Australian R&D and procurement, and limit Telstra's international ambitions, influencing the viability of the Australian telecommunications industry (Australian Parliament, 1996).

<sup>3</sup> For example, COMPAC (1962-63), SEACOM (the South East Asia Commonwealth Cable, 1967), and ANZCAN (1984) cable systems, and TASMAR sea cable (jointly managed with the New Zealand Post Office).

<sup>4</sup> Examples include South Pacific Network (optical fibre cable Asia, North America and Europe), JASURAU (a cable linking Australia and Indonesia, 1995), and Asia-Pacific Cable Network (APCN).

In 1976 OTC was one of the founding members of the International Maritime Satellite Organisation (INMARSAT), which provided worldwide maritime satellite services<sup>5</sup>.

### Other International Bilateral/multilateral Cooperation

More generally, the company has participated actively in multilateral and bilateral cooperation with the Commonwealth Telecommunications Organisation (CTO), and been a member in other international cooperatives between national telecommunications authorities, such as International Telecommunications Union (ITU), The Asia-Pacific Telecommunity, and South Pacific Forum. These forums fostered cooperation between incumbent telcos internationally and included activities such as conference participation, training, international consultation (for example, on technical standards, interconnection tariffs), and regular visits to each other's organisations, including staff exchange programs<sup>6</sup>. To improve these links further the company (ATC) had established a European liaison office in London in the 1970s.

### Developing Aid, Consulting Projects and Management Contracts

The first outward activities targeting overseas telecommunications markets were related to providing technical assistance to developing countries, mainly through development aid projects. These activities started to develop towards the end of the 1960s and continued actively throughout the 1970s and 1980s. ATC and OTC were engaged in projects in more than 30 countries<sup>7</sup>. Also, they provided training (from a few days to 6 months) in Australia for the personnel of telcos from developing countries<sup>8</sup>.

These projects in developing countries were then the basis for larger and more commercial projects in the late 1980s. In 1986 a consulting and project management subsidiary, Telecom Australia (International) Ltd (TA(I)), was established to market Telecom Australia's telecommunications competences globally, although the main focus was on the Asia/Pacific and Middle East regions. In 1986 TA(I) signed a significant contract with the Vietnamese Government's Directorate General of Posts and Telecommunications to build and manage its international telephone network (international phone lines/exchanges, trunk networks, and satellite earth stations). Similar, although smaller scale contracts followed, such as, in 1989 with Laos, and in 1990 with Cambodia (network planning, satellite links, international gateways) and Burma. These operations were mostly in the form of management contracts, with the largest ones set for fixed terms of 5 or 10 years, although it needs to be noted that later some of these projects included some relatively significant investments.

In 1992 the company was also engaged in shorter-term projects, such as in China as a subcontractor for Australian Olex Cables, and in India together with the Australian Government. By 1991 it had been engaged in projects in more than 40 countries, mostly in developing countries.

In 1988 the company entered in a JV (50%) with Saudi Telecom to operate and manage Saudi-Arabia's telephone network, in 1989 invested in (40%) Samart Telecoms company in Thailand (satellite and fibre optic equipment and data network services), and in a JV with Australian Olex Cables in Pakistan to supply optical fibre cable. It needs to be noted, though, that in spite of the JV structures, these projects still resembled management contracts by limiting the upside for a foreign investor (build-operate-transfer (BOT) themes), as also stated by a senior manager of Telstra interviewed for this study:

*So for example, Saudi Arabia was one such operation which I think was concluded approximately about five years ago and the contract ran its full course and was reasonably profitable in terms of the, certainly in terms of any capital investment Telstra had. It was really a form of management contract where they actually set up a local operator.*

*[T]hose examples give you an idea of the kind of activity that was underway, which had no real upside other than the contractual upside.*

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<sup>5</sup> In 2000 Telstra became a JV partner (35%) in Xantic B.V., a Netherland-based company that targeted customers globally with their satellite-based voice and data services.

<sup>6</sup> An example of a success with bilateral cooperation is the company's and KDD of Japan research laboratories collaboration in 1983/84 to run the world's first intercontinental field trial of the CCITT No. 7 signalling system. These types of cooperation activities were still common even in the early 1990s. For example, in 1990 OTC signed a memorandum of understanding with Telekom Malaysia to cooperate in searching new JV opportunities, and in 1992 AOTC signed a similar agreement to cooperate with Singapore Telecom in areas such as technology and marketing (The Business Times Singapore, 8.3.1993; Straits Times, 4 Aug 1992: Telecom in Aussie pact).

<sup>7</sup> Development aid projects included assistance in Bangladesh, Brunei, Burma, Cook Islands, Fiji, India, Indonesia, Kenya, Kiribati, Kuwait, Lao, Malawi, Malaysia, Maldive Islands, Micronesia (Federal State of Micronesia), Myanmar, Nepal, New Caledonia, Nigeria, Papua New Guinea, Singapore, Solomon Islands, Thailand, Tonga, Uganda, Vanuatu, Western Samoa, and Zambia. For example, in the 1970s OTC had the responsibility of being Papua New Guinea's international carrier, and even after the responsibility was transferred to PNG Government OTC continued its assistance.

<sup>8</sup> For example, training in Australia was provided for staff from Afghanistan, Bhutan, China (PRC), Ethiopia, Fiji, Gilbert Islands, Hong Kong, India, Iran, Kenya, Kuwait, Malaysia, Maldive Islands, Mauritius, Nepal, Papua New Guinea, Pakistan, the Philippines, Singapore, South Korea, Sri Lanka, Tanzania, Thailand, Turkey, United Arab Emirates, Vanuatu, and Zambia. In addition, the company run a training school in Fiji for staff from Pacific countries.



## Opportunistic International Investments

In the 1990s the pace of the internationalisation of the company accelerated further, resulting in a more active management of its overseas investments and very ambitious international growth objectives<sup>9</sup>. This required an aggressive strategic approach and entries in several new target markets.

The company's investments in Vietnam increased rapidly since its entry in 1986, and by 1992 it managed the whole telecommunications network in the country, including also the provision of mobile services<sup>10</sup>. In 1991 the company bought a 51% share in Uni-Net, a Polish rural operator (radio communications and paging services). TA(I) also established wholly owned subsidiaries in New Zealand and the USA. In 1992 OTC had advances in utilising Australia's competence in satellite systems by establishing an earth station-based service in Kazakhstan (resulted in a JV (40%) in 1994/95), and following that a similar service in the Russian Far East. In 1992 OTC entered into a JV (50%) in Hong Kong to provide second generation cordless telephone (CT2) services<sup>11</sup>.

In 1993 the company won a bid for a digital mobile licence in India, in the Calcutta region, resulting in a JV (49%) in Modi Telstra (Private) Limited, and in 1995, following a B-O-T project started with the Sri Lanka Government two years earlier, established a JV (60%), Mobitel (Private) Limited, with Sri Lanka Telecom to provide mobile services in the country. In 1994 the company received a licence to become the second foreign telecommunications carrier to operate in the UK domestic market, invested in a JV (49%) A-Tel-Inc in Korea with a local partner to provide value added services, and in a JV (49%) Telecom Services Kiribati Limited to provide telecommunications services in the island. In 1995 the company continued its activity in Indonesia by investing (20.4%) in a fixed-line operator PT Mitra Global Telekomunikasi Indonesia (MGTI) in Central Java, and in India by investing in (40%) Amadeus Investment and Finance (Private) Limited, a satellite-based voice and data network<sup>12</sup>. In the same year it also opened an office in Beijing, China, partly to help manage its investment activities in Hong Kong. In 1996 it increased its presence in Indonesia further by entering in a JV (75%) PT Jastrindo Dinamika, a radio trunk operator, and acquiring 100% in PT Nusantara.

In 1998, partly as a result of the Asian financial crisis, the company moved its focus more towards developed markets. The Managing Director of Telstra's international division, Ted Pretty, stated: "*Telstra has advocated an emerging markets strategy over the past five years and we've now turned our attention to opportunities in developed markets, in particular targeting Japan, Europe, and the U.S.,*" (Dow Jones International News, 1998). In that year, the company purchased a 10% share in INTEC Communications Inc., a Japanese network company, and aimed at a Japanese telecommunications licence in 1999, and had also some aspirations in regard to Taiwanese markets with links to its Japanese operations. In 2000 it expanded its activities in New Zealand from pure B2B services by entering in a JV (50%) TelstraSaturn Limited, which later became the basis for a wholly-owned subsidiary TelstraClear Limited, New Zealand's second largest full-service telecommunications carrier (with 12% market share in 2005).

Coming to the 21<sup>st</sup> century Telstra increased its international efforts significantly. As its Group General Manager, International and Wholesale, Doug Campbell stated (The Australian, 22 Feb 2000, pg. 56):

*We have been putting together our plan to tackle the international markets in a very robust way. We have ambitions to be a major player in international fields, particularly in the Asia-Pacific region. In fact, we have a presence in 19 countries globally. But none of those investments are particularly large. We are looking to build our offshore revenues on a collective basis to something of the order of \$4 billion to \$5 billion over the next several years.*

As a result of these aspirations, in August 2000 it announced plans to engage in its largest overseas investments ever, a partnership with Hong Kong based Pacific Century CyberWorks Limited (PCCW). In February 2001 the deal was officially completed, resulting in two JVs: Reach Ltd (REACH), data network operator targeting the whole Asian region (Telstra's share 50%), and a mobile phone operator Hong Kong CSL Limited, (60%)<sup>13</sup>. Also in 2001 a new entity, Telstra International, was established to manage these and other Telstra's interests in the

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<sup>9</sup> For example, in 1993 OTC had set its objective for its revenues in the Asia-Pacific region to increase to A\$2 billion from A\$200 million at that time (The Business Times Singapore, 8 March 1993).

<sup>10</sup> The initial investment was US\$1.6 million, whereas over the years of cooperation the investments gradually rose above US\$200 million (Vietnam Investment Review, 4 Oct 1993).

<sup>11</sup> This cooperation with Chevalier OA, a local office automation group, also included a bid for a licence to build and operate a digital cellular network in Hong Kong.

<sup>12</sup> Later the company (Amadeus) changed its name to Telstra Vishesh Communications Ltd.

<sup>13</sup> REACH was a result of combining both Telstra's and PCCW's international infrastructure assets. In 2002 Telstra bought the remaining shares of CSL (for A\$1.1 billion) and became the sole shareholder. In 2006 CSL merged with another Hong Kong based mobile operator, New World PCS, forming CSL New World Mobility Group (CSLNW), of which Telstra's owns 76.4%

Asia/Pacific region<sup>14</sup>. Its headquarters was located in Hong Kong, close to China and other large Asian markets which Telstra perceived as potential and interesting growth opportunities<sup>15</sup>. A senior manager interviewed for this study stated:

*The idea was two-fold. One was to use our interest in the regional, in what was CSL, the local Hong Kong operator, but to develop what we called a regional wireless company, which was designed to have extensive interests in mobility in South East Asia mainly but also Northern Asia was then targeted as an opportunity. So the broad strategy was to use its interests in Hong Kong as a means to spring board into Asia. I would say the strategy then was principally around mobility in south-east Asia*

### Expanding to Goods and Other services, and 'Born Globals'

At the same time with the abovementioned advances in international markets the company also engaged in several JVs in Australian companies aimed at the international ICT technology and software markets. For example, in 1987 it entered into JVs in Telecom Technologies Pty Ltd (50%) and QPSX Communications Australia (60%) (Sold in 1998); in 1988 in Advanced Network Management Pty Ltd (60%) (Liquidated in 1999/2000); and in 1989 in Telecom Messagetech Pty Ltd (51.1%)<sup>16</sup>. In 1991 the company entered the US markets with its directory business, establishing a majority-owned JV (91.8%) Directory Net Inc.<sup>17</sup>. In 1993 OTC launched a service to send Australian TV programmes to Asia through a satellite over Indonesia. The international target markets for these companies were mainly global, in many cases focusing more on developed countries and B2B customers.

In 1995 the company established a separate entity, Telstra Ventures, to invest in Australian companies in the ICT industry. The objective was to identify, develop and market products globally, thus also supporting Australian telecommunications equipment and systems exports<sup>18</sup>.

In 1997 the company invested in Atlas Travel Technologies Pty JV (52.5%), a company providing electronic distribution systems for travel operators and agencies; and in Pacific Access Pty Ltd (62.5% > 75%), a directories and online advertising business (later renamed Sensis Pty Ltd and became a wholly owned subsidiary); in 1999 a 15 per cent share in Computershare Limited, a company providing software-based services and systems to the financial services industry<sup>19</sup>; in unsuccessful investments in Sausage Software (5%, with options to further 35%) and in Solution 6 (24%); and, in 2000 it acquired a 51% share in Keycorp Limited, specialised in electronic transaction solutions. The strategy was very opportunistic and, it could be argued, with regards to many of these activities, influenced by the dot.com boom in the late 1990s - 2000.

### De-internationalisation Developments

Although the company had some setbacks during the Asian financial crisis in the late 1990s, it did not have significant Asia risks, and even came up with a relatively healthy balance sheet after the telecom bust over 2000 – 2002 period<sup>20</sup>. However, it finally faced challenges as a result of the financial market turbulence and its effects on the industry, such as rapidly decreasing price levels and valuations of telecommunications networks. It had to scale down many of its international operations and in 2002 and 2003 it made significant write downs on its assets in REACH and CSL<sup>21</sup>. Also, REACH reviewed its strategy rejecting its ambitious plans to become a global data network provider and instead focused only on selling capacity to its two owners, Telstra and PCCW. The company also retreated from all of the international activities of its network construction subsidiary NDC, and made a decision not to invest in any new mobile communications companies internationally<sup>22</sup>. During the early 21<sup>st</sup> century it had already sold its shares in mobile operator Modi (India), and in 2002 in Mobitel (Sri

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<sup>14</sup> Telstra's existing ventures in India, Japan (B2B), New Zealand (Clear/B2B), Singapore (B2B), Sri Lanka, and Vietnam were also moved under Telstra International.

<sup>15</sup> Telstra was hoping to benefit from China's expected entry to WTO (China joined in Nov 2001). An example of China's potential was that its mobile phone market was growing by the size of that of Australia every three months (The Australian, 2 April 2001).

<sup>16</sup> All of the abovementioned companies had marketing activities globally. Examples of some of the international investments were QPSX Communications USA subsidiary (established in 1988) and Telecom Messagetech being a shareholder in paging system operators in the Netherlands and the Philippines.

<sup>17</sup> The internationalisation of its directory business to the US markets was a major decision for the company, as it aimed to compete with the US long-distance carrier AT&T. The product was a value added service (Electronic White Pages system), developed first in Australian markets.

<sup>18</sup> Telstra estimated that these exports from Australia should exceed \$1 billion by 1996 (Telstra Annual Report, 1995).

<sup>19</sup> Telstra decided to sell its shares in Computershare in 2000, and made a good profit on the sale.

<sup>20</sup> For example, Standard and Poor upgraded Telstra's credit ratings in 2002 - the only telco in the world that had its ratings upgraded at that time. (Agence France-Presse, 4 Aug 2002). It could be argued that Telstra's still relatively very strong position in the domestic markets, and the resulting strong cash flow, combined with the fact that Telstra never engaged in costly 3G auctions in Europe, contributed to this situation.

<sup>21</sup> In 2002 Telstra had to write down A\$1.0 billion on its investments in REACH and CSL, and its share price dived 35 per cent during the following four weeks. (Agence France-Presse, 4 Aug 2002). In 2003 Telstra wrote off the whole face value of its REACH investment.

<sup>22</sup> At the time of the closure of NDC it had established offices in nine countries in the Asia-Pacific region.

Lanka). The company also retreated from many JVs in fixed-line operators, such as in 2001 in Kiribati and in 2004 in Indonesia (MGTI). Also, Telstra sold its shares in/divested/liquidated most of the technology and software companies it invested in the late 1990s.<sup>23</sup>

Telstra's divestment of Infonet shares (a small stake in a global alliance) occurred during this de-internationalisation phase in 2004. It also had closed its B2B offices in France and Germany already earlier in 2000, focusing on its European activities in its new European office in the UK, and closed or significantly downscaled many of its Asian offices in 2000/01, such as Korea, Malaysia, and Japan.

The debate on internationalisation combined with pressures from financial markets resulted in a significant change in strategic direction for the company and in changes in its senior management: during 2004 and 2005 both the Chairman of the Board and the CEO were replaced, and many senior level managers moved their focus areas from international to domestic markets. As reported in *The Australian* (3 Aug 2004, pg. 21), in June 2004 the new board "*aborted a four-year search for growth in Asia*" and "*no new investments in Asia were considered*".

### Failed Bids

Throughout its rapid (opportunistic) internationalisation phase the company was also engaged in bids that were never realised and/or were terminated very early, for example, in the Philippines (a JV with a local partner to establish country's second telephone operator), Thailand (to acquire a minority share in Thailand's second largest mobile phone operator TAC), a share in Indonesia's second largest mobile operator Indosat (with which Telstra already had a JV in MGTI), and several reported ambitions in China.

### Focusing Again More on Domestic Markets and Selected International Activities.

Since the de-internationalisation phase started, the company still maintained some modest and/or focused international ambitions, such as negotiations with SingTel about acquiring its Yellow Pages business in 2003, and its acquisition of PSINet in the UK in 2004, mentioned earlier. In Australia it tried to acquire media company John Fairfax in 2004 and acquired KAZ Group, an Australian IT-technology company (targeting B2B customers), which also had subsidiaries in Hong Kong, Singapore and the US. It also maintained its objective of increasing its presence in China, although by 2005 this was not anymore a top priority<sup>24</sup>. However, the focus of the company had now clearly moved towards more traditional and developed markets, even focusing mostly on domestic markets, and at some level also back to a more integrated/diversified business model, and serving their MNE customers, mostly in developed countries/large business centres<sup>25</sup>.

As a result of this move back to a more domestic focus, the company's international operations consisted only of a few selected investments: TelstraClear in New Zealand, and Hong Kong CSL and REACH. The strategy was based on increasing the value of its existing operations/investments and divesting/rationalising all non-core operations. This view is evident in the discussion in Telstra's Annual Report in 2003, the emphasis being on Australia and comments on international markets are very limited, or as stated in Annual Report 2005 (pp.5.) by the new Chairman, Donald McGauchie and the 'resigning' CEO Ziggy Switkowski: "*Our top priority remains the performance of our domestic operations*", and in the first sentences of the whole report (p. 3):

*We are Australia's leading telecommunications and information services company, with one of the best known brands in the country. We offer full range of services and compete in all telecommunications markets throughout Australia and certain overseas countries.*

*Our vision is to be Australia's connection to the future.*

That is, Telstra again focused more on its domestic markets and with a fully integrated business model, rather than a focused international one. In addition to this, its MNE-serving B2B operations maintained an international strategy, although they also were scaled down from the most ambitious plans of the late 1990s.

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<sup>23</sup> For example, QPSX Communications was sold with a small loss in late 1990s, Telecomm Messagetech liquidated in 2000, Computershare was sold in 2000 in a profitable exit, shares in Sausage Software (then SMS Management and Technology Limited) sold in 2001 (write downs/lost), and shares in Solution 6 were sold in 2003 (write downs/lost), and shares in Keycorp were sold in 2005.

<sup>24</sup> For example, in late 2002 it signed a memorandum of understanding with China Unicom to examine potential cooperation opportunities in the Chinese mobile communications market and in 2004 plans to establish MVNO operations in China. However, by today these plans have not realised. As the official telecommunications provider of the Sydney Olympics the company was also providing assistance to the 2008 Beijing Games. This 'not-top priority' objective of increasing presence in China was mentioned still in late 2005 by Telstra's newly nominated CEO Sol Trujillo.

<sup>25</sup> An example of the company's diversified product strategy in its domestic market is its continuous effort on its directory business subsidiary Sensis and that one of its divisions, Telstra Media, is Australia's largest pay-TV operator through FOXTEL (Telstra Annual Report 2005).

## B2B Offices

With regards to their B2B activities Telstra followed very different and more traditional strategies than with most of its other businesses. This was a natural consequence of following their most important Australian MNE customers to overseas markets, and also at some level for providing presence to cooperate with other telecommunications companies internationally, and later also to serve MNEs from other countries by marketing Australia as their Asia-Pacific telecommunications hub<sup>26</sup>. As a part of this strategy, during the late 1980s and throughout the 1990s, Telstra and its predecessors opened B2B and liaison offices in the largest business centres in the US, Europe and the Asia-Pacific region in order to become a single source of telecommunications provider for MNEs<sup>27</sup>.

At the early phases of their internationalisation this B2B strategy was supported by the company's involvement in global multilateral strategic alliances with other incumbent telcos to provide data network capacity globally, and later it also engaged in some relatively large investments in its own network capacity in some key markets, such as the UK, and in some smaller scale investments, for example, in Japan<sup>28</sup>. Also, Telstra's investments in New Zealand, discussed earlier, were at the first place strongly motivated by the need to serve large trans-Tasman MNEs. The company's overseas offices were also promoting Telstra's international network capacity to local carriers.

## International Strategic Alliances

In parallel with its B2B activities the company entered in global multilateral strategic alliances with other incumbent telcos. These were established to provide data network capacity and value added services globally to serve the MNE customers of each partner. It could be argued that these were a natural continuum from the earlier cooperation activities between incumbent telcos. Telstra was involved in Infonet and WorldPartners alliances. Infonet was an alliance between 11 major American, European and Asian incumbent telcos. In Infonet Services Corporation (Infonet), Telstra was one of the founding partners (in 1989). This engagement included a small equity investment of 5%<sup>29</sup>. In 1993 AT&T initiated the WorldPartners alliance, other members in addition to Telstra being Kokusai Denshin Denwa (KDD) from Japan, Singapore Telecom, Korea Telecom, and Unitel of Canada. In 1994 Unisource alliance joined WorldPartners<sup>30</sup>. However, these alliances were not very successful resulting in some conflicts of interests between the partners and were later terminated. For example, in 1998 Telstra's already decided acquisition of a 10% equity investment in WorldPartners was never realised before the alliance was terminated later that same year. The company also sold off its shares in Infonet in 2004.

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<sup>26</sup> The company's Australian MNE customers included the large Australian banks, but later it also managed to sign contracts with organisations such as the Canadian Government and many MNEs such as IBM and Toshiba for their Asia-Pacific data communications services.

<sup>27</sup> OTC opened its first international office in the US in 1984, followed by an office in the UK in 1987. During the late 1980s and in the 1990s the company also opened B2B/liaison offices in China, France, Germany, Hong Kong, Japan, India, Indonesia (Jakarta), Korea, Malaysia, New Zealand, Singapore, Taiwan, and Thailand (Bangkok).

<sup>28</sup> In 2004 Telstra increased its network investments in UK by acquiring PSINet (and some associated companies, such as Powergen and Cable Telecom) for \$127 million (The Australian, 26 Aug 2004, pg 27). The main objective of these acquisitions was to provide cost effective network capacity and data services to serve Telstra's MNEs customers' UK-based operations, but to support this strategy the company also decided to target business customers within the UK market. In Japan the company invested (10% share) in INTEC Communications.

<sup>29</sup> Later Telstra's share increased to 12.93%.

<sup>30</sup> Unisource was an alliance established by KPN, Swisscom and Telia, and later joined by other European telcos.

## Appendix 9 b

<b>History of Telstra and the Australian Telecommunications Sector</b>	
<b>Year</b>	<b>Company Event &amp; Related Event</b>
1871	Telecommunications connections from Australia to overseas markets since 1871 by the British Australian Telegraph Company's submarine cable connection (using telegram service).
1879	Australia's first telephone service connected two offices of Robinson Brothers' in Melbourne and South Melbourne.
1901	Postmaster-General's Department (PGD) established (the predecessor of Telstra)  Commonwealth of Australia Constitution Act 1900: Australia became an independent country in Jan 1901
1930	The first overseas call was made (between Australia and Britain)
1946	The Overseas Telecommunications Act 1946 - Overseas Telecommunications Commission (OTC) was established as a separate organisation to manage Australia's international Communications.
1975	The Telecommunications Act 1975 - Australian Telecommunications Commission (Telecom Australia) was established to be responsible for telecommunications services in Australia. (that is, Post Office was separated from PGD)
1986	Telecom Australia (International) Ltd (TA(I)) established to market Telecom Australia's telecommunications competences globally.
1989	Corporatisation: Australian Telecommunications Corporation (Telecom Australia)
1989	The Telecommunications Act 1989 - Deregulation: The opening of competition in the sales of telecommunications equipment and value-added services. AUSTEL established as the main telecommunications industry regulator.
1991	The Telecommunications Act 1991 – Deregulation: The opening of competition in national long distance and international telephone calls, which resulted in carrier duopoly (Optus granted another licence).
1991	Australian Telecommunications Corporation incorporated as an Australian public limited liability company in November 1991.
1992	A merger between OTC and Australian Telecommunications Corporation to form Australian and Overseas Telecommunications Corporation (AOTC)
1992	The mobile communications market was opened to competition. In addition to Telecom Australia, Optus and Vodafone received licences (started operations in 1993).
1993	The name of the merged organisation changed its name to Telstra Corporation Limited (the name that had been used internationally already since 1992). In domestic market the name Telecom Australia was still used until July 1995.
1995	The ACCC was established through the merger of the former Trade Practices Commission and Prices Surveillance Authority.
1997	The Telecommunications Act 1997 – Australian telecommunications market opened to full competition: AAPT, Optus, Primus Telecommunications, and Telstra were granted the carrier licences.
1997	Partial privatisation: The government sold one-third of Telstra to local investors (T1).
1999	The government sold more shares, but still maintained the controlling share of 50.1% (T2)
2006	More shares sold (to Future Fund); effectively still safely in Australian ownership (T3).

## Appendix 9 c

<b>Telstra's Most Important International Activities in a Chronological Order (including predecessors)</b>				
<b>Year</b>	<b>Event</b>	<b>Market</b>	<b>Operation</b>	<b>Product</b>
1946	OTC established (later merged with AOTC)	Global		
Pre 1970s -	Multilateral and bilateral cooperation (e.g. ITU, CTO)	Global	Cooperation	E.g. interconnection, training, meetings/assistance
Pre 1970s – 1990s 2000	Multilateral and bilateral cooperation in cable and satellite systems (e.g. COMPAC, SEACOM, TASMAR, INTELSAT, INMARSAT, JASURAU, TVH Australia-Japan Cable Holding Limited)	Global	Cooperation/alliances (Small holdings in INMARSAT (2.03%) and INTELSAT (1.83%), and a JV in A-J H Ltd (39.9%))	E.g. cable and satellite systems
(1960s) 1970s-1980s	Development aid projects in more than 30 countries	Asia-Pacific, Africa, Middle East	Transhuman export	Know how (consulting project)
1985	Liaison office in the US by OTC (Later in the 1990s subsidiaries included Telstra Inc. and Telstra Network Services Inc., North Point Telecommunications Inc., and Telstra eConnect LLC – all targeting B2B customer segments)	USA	Subsidiary/branch (100%)	B2B services
1986	Telecom Australia (International) Ltd TA(I)	Australia > Global	Subsidiary (100%)	An international arm of the company
1986 -	International consulting projects through TA(I)	Global (40+ countries)	Transhuman export	Know how (consulting project / management contract)
1986	Contract with Vietnam government's Directorate General of Posts and Telecommunications	Vietnam	Transhuman export / (followed by increasing investments, including local offices)	Know how (consulting project / management contract)
1987	Liaison office in the UK by OTC	UK	Subsidiary/branch (100%)	B2B services
1987	QPSX Communications Australia	Australia > Global	Investment (60%) / Export > Later subsidiary (100%)	Goods/services (IT Technology)
1987	Telecom Technologies Pty Ltd	Australia > Global	Investment (50%) /Export > Later subsidiary (100%)	Goods/services (CPE)
1988	Advanced Network Management Pty Ltd	Australia > Global	Investment (60%)	Services (&goods) (VAS to PABX)
1989	Telecom Messagetech Pty Ltd (including JVs in paging companies in the Netherlands and the Philippines)	Australia > Global	Investment (51.1%) / Object-based services	Services (mobile software)
1988	Telecom Australia (Saudi) Co. Ltd – contract with Saudi Telecom	Saudi-Arabia	Transhuman export > JV (50%)	Know how (consulting project / management contract)
1988-1993	OTC (and later AOTC) opened offices in Japan, Hong Kong, Thailand, Indonesia, Singapore, Taiwan, Korea, Malaysia and PNG	International (Asia)	Branch offices / subsidiaries	Liaison offices for B2B services and consulting projects / management contracts
1989	Telecommunications link between the major cities	Laos	Transhuman export	Know how (management contract)
1989	Infonet Services Corporation (alliance with 11 major telcos)	Global	Alliance/ Minor Investment (5%)	B2B data services
1989	Samart Telcoms Company Limited	Thailand	Investment (40%)	Know how/ systems (consulting, satellite and fibre optic equipment (distributor)/ data network services)
1989	Optical fibre cable between Karachi and Islamabad	Pakistan	Investment / JV with Pacific Dunlop Ltd	Know how (consulting project / management contract)

1990	10 year contract with Cambodian government	Cambodia	Transhuman export	Know how (consulting /management)
1990	Supply telephone services/systems for Burma	Burma	Transhuman export /(export)	Know how (consulting /management)
1991	Telecom Australia (New Zealand) > TelstraSaturn Limited (in 2000) > TelstraClear (in2001)	New Zealand	Subsidiary (100%) > JV 50% > 58% > Subsidiary (100%)	From B2B Services to Full-service operator
1991	Acquired shares in Uni-Net, a Polish rural telecommunications operator	Poland	Investment (51%)	System/Network (Radio communications and paging services)
1991	Directory Net Inc.	USA	Investment (91.8%) > Later subsidiary (100%)	Services/object-based services (electronic directory services)
1992	Cellular and satellite communications to UN peace keepers	Cambodia	Transhuman export / (export)	Know how (consulting /management)
1992	Telecom Australia as a subcontractor to Olex Cables in fibre cable project	China	Transhuman export	Know how (consulting /management)
1992	Chevalier Telepoint; 2nd generation Cordless Telephone operator	Hong Kong	Investment (49%)	System/network (CT2 Network)
1992	Project together with Indian Government (Network Management System)	India	JV/transhuman export	Know how (consulting /management)
1992	Earth station satellite system in Central Asian Republic of Kazakhstan	Kazakhstan	Transhuman export / export > Later JV (40%)	Know how (consulting /management)
1992	Earth station satellite system in Russian Far East	Russia	Transhuman export / export	Know how (consulting /management)
1992	Telecom Australia International (TAI) office > Later PT Telstra Nusantara	Indonesia	Subsidiary	B2B and liaison office / Consulting project / management contract
1993	WorldPartners (alliance with 6 major telcos)	Global	Alliance (aiming for a minority JV, but the alliance was terminated before that)	B2B services
1993	OTC launched the Australia TV international satellite service	International (Asia)	Exports	System/service (TV satellite service)
1993	OTC Australia (Private); later Mobitel (Private) Limited	Sri Lanka	Subsidiary (100%) >Later JV (60%)	System/network (mobile operator)
1993/94	The company received the second foreign carrier licence in the UK	UK		System/network and B2B services
1994 (sold 1994)	International Communications Corporation (unsuccessful JV with a local partner)	The Philippines	Investment (40%)	Services/system (international exchange/ telecommunications services)
1994	Modi Telstra (Private) Limited (later Spice Cell, Bharti Mobitel)	India	Investment (49.9%)	System/network (mobile operator)
1994	A-Tel Inc. (Value added voice services)	Korea	Investment (49%)	Services (VAS)
1994-1999	Several B2B/liasion offices globally; OTC had earlier some similar type of operations/branch offices in some of these countries	Global (Hong Kong, India, Japan, Korea, Malaysia, UK, China, Singapore, France, Germany)	Subsidiaries (100%)	B2B services
1994	PT Jastrindo Dinamika (a radio trunk operator)	Indonesia	Investment (75%)	System/network (a radio trunk operator)
1994	Telecom Services Kiribati Limited	Kiribati	Investment (49%)	System/network (telecommunications services)
1995	Infosat Communications (Private) Limited	Pakistan	Investment (70%)	System/network
1995	PT Mitra Global Telekomunikasi Indonesia (MGTI) (in Central Java)	Indonesia	Investment (20.4%)	System/network (fixed-line operator)
1995	Amadeus Investment and Finance (Private) Limited > Telstra Vishesh Communications Ltd	India	Investment (40%) >(47.1%)	System/network (satellite based voice and data network )
1996	PT Jastrindo Dinamika	Indonesia	Investment (75%)	System/network (radio trunk operator)
1997 -	Pacific Access Pty Ltd and / Pacific Access (Thailand) Ltd / WorldCorp Holdings (S) Lte Ltd and WorldCorp Publishing Pte Ltd >Later changed named Sensis Pty Ltd	Australia / Thailand / Singapore	Investment (62.5%) >(75%) >Later subsidiary (100%)	Services (directories and online advertising business)
1997	Atlas Travel Technologies / Moneydirect Ltd and Moneydirect International Limited (global travel business; electronic systems for travel operators/agencies)	Australia / USA / New Zealand / UK	Investment (52.5%) >(67.74%)	Service/systems (electronic systems for travel operators/agencies)

1998	INTEC Communications.	Japan	Investment (10%)	System/network / B2B Networks communications
1999	Solution 6 Holdings Limited (Business software system provider)	Australia / Global	Investment (24%)	B2B service/system (software-based services)
1999	Sausage Software Limited (> SMS Management and Technology Limited)	Australia / Global	Investment (4.94%)	B2B services/systems Software development, and internet and eCommerce solutions
1999	Computershare	Australia / Global	Investment (5% < 15.01%)	B2B services/systems (software-based services to the financial industry, e.g. share registries)
2000	Telstra Europe Limited (the sole European office for Telstra)	UK	Subsidiary (100%)	B2B services
2000	Station 12 B.V. > Xantic B.V.	The Netherlands / Global	Investment (35%)	System/network (Global Satellite Communications)
2001	Hong Kong CSL – JV with PCCW (Later CSL New World Mobility Group)	Hong Kong	Investment (50%) Later subsidiary (100%) Later JV (76.4%)	System/network (mobile operator)
2001	Reach Ltd (REACH) – JV with PCCW (international wholesale carrier of voice and data services)	Hong Kong / Asia-Pacific	Investment (50%)	System/network (carrier network)
2001	Keycorp Investments Pty Limited (later Telstra Payment Solutions Limited)	Australia / USA / Hong Kong / New Zealand / UK	Subsidiaries (100%)	B2B Service/system (electronic transactions solutions)
2002	Beijing Australia Telecommunications Technical Consulting Services Company	China	Subsidiary (100%)	Consulting project (Beijing Olympics assistance)
2004	KAZ Group	Australia / Global	Subsidiary (100%)	IT Services / B2B (data centres)
2004	PSINet Group (and other associated acquisitions)	UK	Subsidiary (100%)	System/network (B2B (data) services)



## Appendix 9 d

<b>Summary of the Internationalisation Strategies of Telstra</b>				
	<b>Product</b>	<b>Operation</b>	<b>Market</b>	<b>Organisation</b>
Domestic Phase	DIVERSIFIED (Domestic) Integrated telecommunications services in Australia. International cable, data, telephone services targeted to Australian customers	COOPERATION International multi- and bilateral cooperation with other telcos (e.g. ITU). Submarine cable and satellite projects (e.g. COMPAC, SEACOM)	DOMESTIC: Focus purely on domestic customers	DOMESTIC: Domestic organisation structure (Except OCT, which was international)
(1960s) 1970s - 1980s	NICHE Started with developing aid/consulting (know-how)  Continued with larger commercialised consulting and management contracts	EXPORTS (Management contracts transhuman, hard-services/object-based services, and goods).	GLOBAL/ (REGIONAL) Focus on developing countries (Africa, Asia-Pacific, Middle East)  First B2B offices in large developed countries	INTERNATIONAL International organisation structure (TA(I))
1990s - 2002	DIVERSIFIED Systems/networks Satellite systems Fixed network projects Mobile operators/ Paging operators Data/internet  Directory services Goods Software products/services  B2B: Active investments in region-wide data networks	FDI/EXPORT Some investments/ongoing management contracts/additional investments, transhuman, hard-services/object-based services, goods).  FDI (minority & majority) Later more committed mode, mostly JVs (minority and majority)  Alliances (Infonet, WorldPartners)  B2B and Liaison offices - wholly owned subsidiaries  DE-INTERNATIONALISATION: Some divestments from the mid 1990s.	GLOBAL/ REGIONAL Mostly developing countries. Entries mostly in the Asia Pacific region, but also in Europe, Middle East, and the USA  Some entries to close and developed countries (often entries to neighboring countries relatively unsuccessful)  B2B offices in large developed countries	I INTERNATIONAL/ MULTIDOMESTIC: International/ Multidomestic organisation structure  GLOBAL/ INTERNATIONAL B2B In B2B Global/ International organisation structure  GLOBAL In software and similar businesses, and carrier business a global organisation structure.  (TRANSNATIONAL) Some elements of a transnational strategy (REACH/Hong Kong HQ)
2003 - 2004	MORE FOCUSED: Focus on fewer products globally, but on integrated product strategies in each market  INTEGRATED TELCO PRODUCTS (Bundling):	DE-INTERNATIONALISATION: Divestments  No new investments Focusing on existing ones/increasing shares	DOMESTIC / REGIONAL De-internationalisation from several markets	INTERNATIONAL/ MULTIDOMESTIC Back to international/ multidomestic strategy  GLOBAL B2B B2B: Global organisation structure
2004 -	DIVERSIFIED (Domestic) INTEGRATED TELCO PRODUCTS (Bundling):  Strong product diversification (convergence) in domestic markets  Focus on more full-service operations in a few selected markets.	FDI Increasing ownership share in a few selected overseas investments.	DOMESTIC / REGIONAL Focus on domestic markets, some focus on NZ, Hong Kong and other developed countries. Some ongoing aspirations in China, with little success.  REGIONAL/ GLOBAL B2B operations regional with some global emphasis	INTERNATIONAL/ MULTIDOMESTIC (DOMESTIC) Back to international/ multidomestic, or even domestic strategy.  GLOBAL B2B

## Appendix 10: the Development Levels of the Country Markets

The Development Levels of the Country Markets						
Year 2000	Singapore	Finland	Sweden	Australia	USA	World
Population (million)	4.02	5.18	8.88	19.07	284.15	6,094.92
GDP Per capita US\$	21,037	25,288	29,007	21,315	32,952	7,133
Main (fixed) telephone lines per 100 inhabitants	116.83	127.06	136.56	97.59	106.28	28.10
Mobile cellular subscribers per 100 inhabitants	68.39	72.03	71.78	44.89	38.53	12.11
Internet/broadband subscribers per 100 inhabitants	21.23/ 1.72	11.9/ 0.68	25.32/ 2.8	20.56/ -	16.0/ 2.49	2.88/ 0.35
The Network Readiness Index Rankings in <b>2001</b> (by Centre for International Development, at Harvard University)	1.	3.	4.	14.	1.	
Global Competitiveness Index Ranking, <b>2001-2002</b> (by World Economic Forum)	4.	1.	9.	5.	2.	

Source: International Telecommunications Union (ITU), 'World Telecommunication/ICT Indicators Database' from year 2000, unless otherwise stated.

## Appendix 11: Government's Ownership in the Case Companies

Government's Ownership in the Case Companies					
Year	SingTel	Sonera*	Telia*	Telstra	
1990	100%	100%	100%	100%	
1993	89%				
1994					
1995	82%				
1996	82%				
1997					66.6%
1998					77.8%
1999	80%				57.6%
2000		52.8%	70.6%		
2001				51.1%/	
2002		19.1% (FIN) / 45.3% (SWE)			
2003	65%				
2004		13.7% (FIN) / 45.3 (SWE)			
2005	56%				
2006				17%	
2008	54%	13.7% (FIN) / 37.3% (SWE)		(&17% in Future Fund)	

\*Telia and Sonera merger in 2002. Since then the company was named TeliaSonera.

## Appendix 12 a

Cross Case-analysis Product Strategies					
	SingTel	Sonera	Telia	Telstra	Overall pattern
Domestic Phase	DIVERSIFIED (Domestic) Integrated telecommunications services in Singapore. International cable, data, telephone services targeted to Singaporean customers	DIVERSIFIED (Domestic) Integrated telecommunications services in Finland. International cable, data, telephone services targeted to Finnish customers	DIVERSIFIED (Domestic) Highly (vertically) integrated telecommunications services in Sweden. International cable, data, telephone services targeted to Swedish customers	DIVERSIFIED (Domestic) Integrated telecommunications services in Australia. International cable, data, telephone services targeted to Australian customers	<b>DIVERSIFIED (Domestic)</b>
Learning Phase		1970s NICHE Started international operations by selling consulting services (know-how)	1960s- NICHE Started international operations by selling consulting services (know-how)	(1960s) 1970s -1980s  NICHE Started with developing aid/consulting (know-how)	<b>NICHE (Global) Selling know-how: consulting projects</b>
	1988- NICHE Started international operations by selling consulting services (know-how)		1980s NICHE Continued consulting projects – developing aid, but also to MNEs and developed countries Also some goods and hard-services / object-based services and systems (telephones, computers, software, security systems)	Continued with larger commercialised consulting and management contracts	<b>NICHE Continuing consulting projects In addition, some goods and hard-services / object-based services</b>
Opportunistic Phase	1989-1995 DIVERSIFIED Systems/networks: Cable TV companies Paging systems Mobile operators Fixed line operators  Also some investments in companies providing: Directory services Software IT technology (goods)  B2B: Active investments in region-wide data networks	1988-1997 DIVERSIFIED Systems/networks: Mobile operators Fixed line operators Cable systems  Also some investments in companies providing: IT technology and software, and directory services  B2B Data services	1988-1997 DIVERSIFIED Systems/networks: Data networks/cable systems Mobile operators Fixed line operators (Location-bound and asset-based services).  Continued goods/services/systems (e.g. directory services)  B2B: Active investments in region-wide/transatlantic data networks	1990s -2002  DIVERSIFIED Systems/networks Satellite systems Fixed network projects Mobile operators/ Paging operators Data/internet  Directory services Goods Software products/services  B2B: Active investments in region-wide data networks	<b>VERY DIVERSIFIED AND OPPORTUNISTIC PRODUCT STRATEGIES</b>

De-internationalisation Phase	<p>1995-</p> <p><b>MORE FOCUSED:</b> Mobile as a spearhead. Generally focus on the core telecommunications products (mobile, data, fixed-line) in</p> <p>Most significant investments in systems/networks (location-bound and asset-based services)</p> <p>Continued venture capital investments in high-tech start-ups in the telecommunications industry</p> <p>Later divested more non-core operations.</p>	<p>1998-2000</p> <p><b>MORE FOCUSED:</b> More focused product strategy: Mobile as a spearhead.</p> <p>Significant investments in systems/networks (location-bound and asset-based services)</p> <p>In addition, investments in global services businesses.</p> <p>Venture capital investments in high-tech start-ups in the telecommunications industry Less focus on B2B operations.</p>	<p>1998-2000</p> <p><b>MORE FOCUSED:</b> More focused product strategy: Mobile clearly as a spearhead.</p> <p>Significant investments in systems/networks (Location-bound and asset-based services).</p> <p>In addition, investments in global services businesses.</p> <p>Some venture capital investments in high-tech start-ups B2B Data services/networks</p>		<p><b>MORE FOCUSED</b> <b>Mobile as a spearhead</b></p> <p><b>Some non-core businesses divested</b></p>
	<p>2001/02</p> <p><b>MORE FOCUSED:</b> Divesting unrelated operations, such as global mobile value-added services business, IT-services, and directories.</p>	<p>2001/02</p> <p><b>MORE FOCUSED</b> Divesting non-core operations, such as manufacturing and software companies, mobile value-added services business, IT-services, and directories.</p> <p>B2B Data services/networks</p>	<p>2003 - 2004</p> <p><b>MORE FOCUSED:</b> Focus on fewer products globally, but on integrated product strategies in each market</p> <p>INTEGRATED TELCO PRODUCTS (Bundling):</p>	<p><b>MORE FOCUSED, Including significant divestments of non-core products</b></p>	
Maturation Phase	<p>2003-</p> <p><b>INTEGRATED TELCO PRODUCTS (Bundling):</b> Increasing convergence of the core telecommunications services: 'bundling' of mobile, fixed-line and data services.</p> <p>Divesting unrelated operations, such as directories and SingPost.</p>	<p>2002/03-</p> <p><b>INTEGRATED TELCO PRODUCTS (Bundling):</b> Increasing convergence of the core telecommunications services: 'bundling' of mobile, fixed-line and data services.</p> <p>Some focused strategies in Russian, Turkish and Eurasian mobile markets.</p>	<p>2004 -</p> <p><b>DIVERSIFIED (Domestic) INTEGRATED TELCO PRODUCTS (Bundling):</b></p> <p>Strong product diversification (convergence) in domestic markets</p> <p>Focus on more full-service operations in a few selected markets.</p>	<p><b>INTEGRATED DIVERSIFIED IN TELCO (Bundling)</b></p>	

## Appendix 12 b

Cross Case-analysis Operation Strategies					
	SingTel	Sonera	Telia	Telstra	Overall pattern
Domestic Phase	COOPERATION International multi- and bilateral cooperation with other telcos (e.g. ITU) Submarine cable and satellite projects	COOPERATION International multi- and bilateral cooperation with other telcos (e.g. NORDTEL, ITU, European cooperation forums) Satellite projects	COOPERATION International multi- and bilateral cooperation with other telcos (e.g. NORDTEL, ITU, European forums); Satellite projects	COOPERATION International multi- and bilateral cooperation with other telcos (e.g. ITU). Submarine cable and satellite projects (e.g. COMPAC, SEACOM)	<b>COOPERATION</b>
Learning Phase		1970s EXPORTS (transhuman)	1960s- EXPORTS (Transhuman)	(1960s) 1970s -1980s EXPORTS (Management contracts transhuman, hard-services/object-based services, and goods).	<b>EXPORTS</b>
	1988- EXPORTS (Transhuman)		1980s EXPORTS (Transhuman, hard-services/object-based services, goods).		
Opportunistic Phase	1989-1995 FDI (minority) Investments in minority JVs	1988-1997 FDI (minority) Investments in minority JVs	1988-1997 FDI (minority) Investments in minority JVs	1990s -2002 FDI/EXPORT Some investments/ongoing management contracts/additional investments, transhuman, hard-services/object-based services, goods).  FDI (minority & majority) Later more committed mode, mostly JVs (minority and majority)	<b>FDI (Minority)</b>  <b>EXPORTS</b>  <b>Global/ international alliances</b>
	EXPORTS (Transhuman, some hard-services/object-based services)  B2B and Liaison offices - wholly owned subsidiaries  Alliances (Infonet, WorldPartners)	EXPORTS (Transhuman, hard-services/object-based services)  A few B2B and liaison offices - wholly owned subsidiaries  Alliances (Infonet)	EXPORTS (Transhuman, hard-services/object-based services, goods).  B2B and Liaison offices - wholly owned subsidiaries  Alliances (Unisource, Infonet, WorldPartners)		
De-internationalisation Phase	1995- DE- INTERNATIONALISATION: Divesting non-core operations  FDI (minority/majority) Aiming at fewer but larger investments.  FDI (majority) Aiming to increase existing investments (but not enforcing majority ownership)	1998-2000 FDI (minority) Investments in minority JVs  FDI (Majority) Increasing ownership share in a few selected overseas investments (but not enforcing majority ownership)	1998-2000 FDI (minority/majority) Investments in minority and majority JVs Increasing ownership share in selected overseas investments (not enforcing majority ownership) A few wholly owned subsidiaries and exports Diminishing role of alliances. Increasing focus on own data and voice network operations	Alliances (Infonet, WorldPartners)  B2B and Liaison offices - wholly owned subsidiaries  DE- INTERNATIONALISATION: Some divestments from the mid 1990s.	<b>FDI (Minority/ Majority)</b>  <b>DE- INTERNATIONALISATION Divesting non-core operations and alliances</b>
		2001/02 DE- INTERNATIONALISATION: divesting non-core operations.	2001/02 DE- INTERNATIONALISATION: divesting non-core operations.		
Maturation Phase	2003- FDI Increasing ownership share in a few selected overseas investments (but not enforcing majority ownership)	2002/03- FDI Aim to move from minority to majority in subsidiaries & associates  Consolidation developments.		2004 - FDI Increasing ownership share in a few selected overseas investments.	<b>FDI (from minority towards majority)</b>

## Appendix 12 c

Cross Case-analysis Market Strategies					
	SingTel	Sonera	Telia	Telstra	Overall pattern
Domestic Phase	DOMESTIC: Focus on domestic customers	DOMESTIC: Focus on domestic customers	DOMESTIC: Focus on domestic customers	DOMESTIC: Focus purely on domestic customers	<b>DOMESTIC</b>
Learning Phase		1970s GLOBAL: Focus on developing countries globally – in Asia and Africa	1960s- GLOBAL: Focus on developing countries globally – in Africa, Asia, the Middle East	(1960s) 1970s -1980s GLOBAL/ (REGIONAL) Focus on developing countries (Africa, Asia-Pacific, Middle East)	<b>GLOBAL</b>
	1988- GLOBAL: Focus on developing countries (Africa, Asia-Pacific, Middle East)		1980s GLOBAL: Focus on developing countries globally – in Africa, Asia, the Middle East, plus exports to developed countries	First B2B offices in large developed countries	
Opportunistic Phase	1989-1995 GLOBAL: Targeting overseas markets globally: Asia-Pacific Region, Europe, the US, Middle East  Entries to neighboring countries (small psychic distance) unsuccessful (e.g. Malaysia, Hong Kong) The first B2B offices in large developed countries	1988-1997 GLOBAL: Geographically close markets in Russia and the Baltic States. In addition, focused investments internationally/globally  The first B2B offices in neighboring countries and in a few leading business centres in developed countries.	1988-1997 GLOBAL: Opportunistic: Investments in geographically close markets in the Baltic States and Russia, but also globally  The first B2B offices in neighboring countries and in a few leading business centres in developed countries.	1990s -2002 GLOBAL/ REGIONAL Mostly developing countries. Entries mostly in the Asia Pacific region, but also in Europe, Middle East, and the USA  Some entries to close and developed countries (often entries to neighboring countries relatively unsuccessful)  B2B offices in large developed countries	<b>GLOBAL</b>  <b>GLOBAL / REGIONAL B2B</b>
	1995- REGIONAL: Focus on Asia (instead of global/Europe) - Divesting most operations outside the Asia-Pacific region  B2B Active investments in networks, subsidiaries and offices throughout Asia, and at some level in the USA and Europe)	1998-2000 REGIONAL/GLOBAL Focus turns to Europe, and even specifically on a few selected target markets in Europe/Eurasia.  Some financial investments in the USA GLOBAL Services businesses (B2B not important)	1998-2000 GLOBAL/REGIONAL: Opportunistic market strategy: Global investments  B2B Active investments in networks, subsidiaries and offices throughout Europe, but also in the US (and at some level in Asia)		<b>FROM GLOBAL TOWARDS REGIONAL</b>
De-internationalisation Phase		2001/02 REGIONAL: Focus on Europe: More specifically, the domestic markets, the Baltic Sea environment: Nordic countries, the Baltic State) and a few selected growth markets: Russia, Turkey and Central Asia	2001/02 REGIONAL: Focus on the home markets: the Nordic countries, the Baltic states. De-internationalisation from other markets. Focus on Europe in carrier networks.	2003 - 2004 DOMESTIC / REGIONAL De-internationalisation from several markets	<b>REGIONAL</b>
Maturation Phase	2003- REGIONAL: Focus on Asia-Pacific region – a clear regional strategy  REGIONAL/ GLOBAL B2B operations with some global features)	2002/03- REGIONAL: Focus on the home markets: the Nordic countries, the Baltic states, and a few selected growth markets: Russia, Turkey and Central Asia/Eurasia  Focus on Europe in carrier networks.  REGIONAL B2B operations regional, with some global features)		2004 – DOMESTIC / REGIONAL Focus on domestic markets, some focus on NZ, Hong Kong and other developed countries. Some ongoing aspirations in China, with little success. REGIONAL/ GLOBAL B2B operations with some global emphasis)	<b>REGIONAL (HOME)</b>

## Appendix 12 d

<b>Cross Case-analysis Organisation Strategies</b>					
	<b>SingTel</b>	<b>Sonera</b>	<b>Telia</b>	<b>Telstra</b>	<b>Overall pattern</b>
<b>Domestic Phase</b>	DOMESTIC Domestic organisation structure	DOMESTIC Domestic organisation structure	DOMESTIC Domestic organisation structure	DOMESTIC: Domestic organisation structure (Except OCT, which was international)	<b>DOMESTIC</b>
<b>Learning Phase</b>		1970s INTERNATIONAL International organisation structure (Telecon, Fintelcom)	1960s- INTERNATIONAL International organisation structure (Swedtel)	(1960s) 1970s-1980s INTERNATIONAL International organisation structure (TA(I))	<b>INTERNATIONAL</b>
	1988- INTERNATIONAL International organisation structure (STI)		1980s INTERNATIONAL International (Swedtel, STI, several subsidiaries under STI)		
<b>Opportunistic Phase</b>	1989-1995 INTERNATIONAL / MULTIDOMESTIC International/ Multidomestic organisation structure	1988-1997 INTERNATIONAL/ MULTIDOMESTIC International/ Multidomestic organisation structure	1988-1997 MULTIDOMESTIC Multidomestic organisation structure  INTERNATIONAL In goods and non-telco services: International (STI, several subsidiaries)	1990s -2002  INTERNATIONAL/ MULTIDOMESTIC: International/ Multidomestic organisation structure	<b>MULTIDOMESTIC/ INTERNATIONAL</b>  <b>GLOBAL/ INTERNATIONAL B2B</b>  <b>(TRANSNATIONAL)</b>
	GLOBAL/ INTERNATIONAL B2B In B2B Global/ International organisation structure	(GLOBAL/ INTERNATIONAL B2B)	GLOBAL/ INTERNATIONAL B2B In B2B Global/ International organisation structure	GLOBAL/ INTERNATIONAL B2B In B2B Global/ International organisation structure	
<b>De-internationalisation Phase / Opportunistic Phase</b>	1995-  MULTIDOMESTIC/ INTERNATIONAL More integration, but still international/ Multidomestic	1998-2000 MULTIDOMESTIC Multidomestic organisation structure  GLOBAL: In mobile service businesses global organisation structure.  (GLOBAL B2B)	1998-2000 MULTIDOMESTIC Multidomestic organisation structure  GLOBAL In mobile service businesses, and carrier business a global organisation structure.  GLOBAL B2B	GLOBAL In software and similar businesses, and carrier business a global organisation structure.  (TRANSNATIONAL) Some elements of a transnational strategy (REACH/Hong Kong HQ)	<b>MULTIDOMESTIC</b>  <b>GLOBAL SERVICES</b>  <b>GLOBAL B2B</b>
		2001/02 MULTIDOMESTIC Multidomestic organisation structure  GLOBAL: In mobile service businesses global organisation structure.	2001/02 MULTIDOMESTIC Multidomestic organisation structure  (GLOBAL) In mobile service businesses, and carrier business a global organisation structure.	2003 - 2004 INTERNATIONAL/ MULTIDOMESTIC Back to international/ multidomestic strategy	<b>MULTIDOMESTIC</b>
	GLOBAL B2B	(GLOBAL B2B)	GLOBAL B2B	GLOBAL B2B	
<b>Maturation Phase</b>	2003- TRANSNATIONAL Many characteristics of a transnational organisation strategy  GLOBAL B2B	2002/03- TRANSNATIONAL The new merged entity, TeliaSonera, had many characteristics of a transnational organisation strategy.  GLOBAL B2B		2004 - INTERNATIONAL/ MULTIDOMESTIC (DOMESTIC) Back to international/ multidomestic, or even domestic strategy.  GLOBAL B2B	<b>TRANSNATIONAL (DOMESTIC/ MULTIDOMESTIC)</b>  <b>GLOBAL B2B</b>

## Appendix 13

<b>Factors Influencing the Internationalisation Strategies of SMOPEC Telcos (developed/revised based on the case data)</b>			
	<b>Factor</b>	<b>Influence on Telcos Internationalisation Process</b> + = accelerating - = limiting	<b>Specific Emphasis on SMOPEC Telcos Internationalisation Process</b> + = accelerating - = limiting
<b>Global Factors</b>	<p>Emergence of MNEs (due to other global factors)</p> <p>Globalised financial markets</p> <p>Homogeneous consumer tastes/</p> <p>Developments in transportation/</p>	<p>'Follow the customers', rapid establishment of B2B offices +</p> <p>Pressures for telcos to internationalise rapidly (and later pressures to divest/de-internationalise) +/-</p> <p>Not yet much evidence in research on telcos</p>	<p>Relatively fewer MNE customers located in SMOPECs – the importance of follow-the-customer strategy relatively smaller –</p> <p>Relatively more important to some of the case companies.</p> <p>Significant factor. Due to limited resources the pressures caused by financial markets relatively greater –</p> <p>Transportation times and time zones play a role and their influence increased over time -</p>
<b>Industry Specific Factors</b>	<p>Nature of the product/service &gt;network externalities &gt;asset-based/location-bound &gt;high capital-intensity</p> <p>MARKET DRIVERS &gt;opportunities &gt;(MNE customers – see global factors)</p> <p>COST DRIVERS &gt;economies of scale advantages</p> <p>GOVERNMENTAL DRIVERS &gt;deregulation &gt;privatisation &gt;the role of government (e.g. regulation, interconnection rules, government ownership)</p> <p>COMPETITIVE/ STRATEGIC DRIVERS &gt;changing industry structure (e.g. from monopoly to oligopoly to competition; from value chains to value networks) &gt; intensified competition &gt;industry growth</p> <p>TECHNOLOGICAL DRIVER &gt;technological developments (e.g. convergence) &gt; standards</p>	<p>Limited opportunities available + &gt;'first mover advantage' + &gt;opportunistic strategies (global) + &gt;'follow the herd' reaction, an urge to capitalize the opportunities before there are none left +</p> <p>Largest companies successful</p> <p>Political strategies prevail/asymmetries</p> <p>Oligopolistic strategic moves+ Largest companies successful</p> <p>Different phases in the internationalisation process +/-</p> <p>'Product cycle' phenomena + Search for synergies (e.g. alliances) +</p>	<p>Nature of the product played an important role, resulting also in adaptation of product strategies.</p> <p>First mover advantages resulted in very opportunistic strategies.</p> <p>Relatively high risks - &gt;need for alternative operation modes &gt;minority JVs - &gt; the role of alliances diminished significantly over time+/-</p> <p>Local economies of scale instead of global economies of scale in many activities-</p> <p>Entries predominantly to developing countries at the early phase of the internationalisation process+</p> <p>Defensive and offensive strategic moves also by the case companies. (due to oligopolistic industry structure)+</p> <p>Significant de-internationalisation phases – Industry growth played an important role +/-</p> <p>Technological alliances played some role (although the role of cross-border alliances with telcos diminished significantly, as mentioned above). Standards had some relevance, but other factors more important.</p>



<b>Home Country Specific Factors</b>	<p>Size of the domestic market</p> <p>Development level of the domestic market &gt;cluster</p> <p>The role of the government</p>	<p>Competitive advantage + &gt;MNC head quarters/customers to follow + &gt;Relatively large balance sheets and resources &gt; international FDIs &gt; unwillingness to enter in minority JVs + &gt;Also global organisation strategies (e.g. global brands) +</p> <p>'Product cycle' phenomena +</p>	<p><b>Competitive advantage -</b> <b>Limited resources &gt; no large FDIs, rather minority JVs -</b> <b>Relatively fewer MNC head quarters/MNCs to follow –</b> <b>Emphasised focus on distant and developing markets (especially at the early phase of the internationalisation)</b> + <b>Less lateral rigidity with regards to internationalisation+</b> <b>Organisation strategies multidomestic</b></p> <p><b>Product cycle' phenomena +</b> <b>The role of the advanced domestic markets (and clusters) very relevant +</b></p> <p><b>Not perceived as a threat by host governments &gt; attractive partners in JVs +</b> <b>Relatively larger role of the home government +</b></p>
<b>Company Specific Factors</b>	<p>Company size Company age</p> <p><b>PHYSICAL RESOURCES</b> &gt;Physical networks</p> <p><b>HUMAN RESOURCES</b> &gt;Technological competence &gt;Political competence &gt;Managerial competence (e.g. international experience and vision of the top managers) &gt;Marketing competence &gt;Financial competence</p> <p><b>ORGANISATIONAL RESOURCES</b> &gt;Brand</p> <p><b>FINANCIAL RESOURCES</b> &gt;Financial resources</p>	<p>Start with system sales and committed operation modes</p> <p>'Product cycle' phenomena + Political pressures – (+)</p> <p>Strategic differentiation +/-</p> <p>Pressures to internationalise + vs. limitations to internationalise –</p>	<p><b>Relatively smaller company sizes lead to less resources -</b></p> <p><b>Case companies invested in some regional data networks, which provided competitive advantage at some level, although also resulted in many risks that realised. +/-</b></p> <p><b>The role of individual CEOs significant+/-</b> <b>The role of political and technical resources significant in the early phases. Later more emphasis on marketing and management competences +</b></p> <p><b>Relatively smaller brand – less push and opportunities to internationalise it.</b> – <b>The role of network approach limited +/-</b></p> <p><b>Relatively small financial resources &gt; less rapid and less committed internationalisation strategies -</b></p>
<b>Host Country Specific Factors</b>	<p>Size of the market</p> <p>Development level of the market (e.g. lead market vs. developing market)</p> <p>The role of government (e.g. deregulation/ regulation)</p> <p>Standards</p> <p>Competitive environment</p> <p>Stability of the country (political)</p> <p>(PSYCHIC DISTANCE and other factors are relative to a company's home market) &gt;Geographic distance &gt;Cultural distance Language</p>	<p>Higher operation costs –</p> <p>'Product cycle' phenomena + General factors such as GDP not among the most important factors +</p> <p>Entries to developing countries +</p> <p>Regional standards –</p> <p>Risk levels of investments –</p> <p>Cultural risks –</p> <p>Language?</p>	<p><b>'Product cycle' phenomena +</b> <b>General factors such as GDP not among the most important factors. The psychic distance paradox supported +</b></p> <p><b>Host country regulation very relevant, but so that the most successful entries to regulated markets rather than to the most deregulated ones. +/-</b> <b>Entries to developing countries ++</b> <b>Risk levels of investments –</b></p> <p><b>The importance of geographic distance increased over time –</b></p> <p><b>The role of cultural distance not very significant, although played some role</b> <b>The role of language not very significant, although played some role</b></p>