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Determinants of Mobile Network Operators' Choice of Cross-Border Entry Modes

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Abstract

This study provides empirical findings on determinants of mobile network operators' (MNO) choices of cross-border entry modes. Arguments mainly from transaction cost theory are used to derive hypotheses and research questions on factors explaining entry mode selection decisions between (1) minority versus majority equity share purchases, and (2) engagements in established operations versus greenfield start-ups. A sample of 111 announcements of strategic international expansion moves conducted by 27 mobile network operators and integrated telecom service corporations in the period from 1989 to 2004 is used to test the study hypotheses. Logistic regression analyses with two binary cross-border expansion mode choice variables as dependent criteria suggest that MNO internationalization entry mode choices were substantially influenced by cultural distance between home and host countries, country risk, demand potential, and competitive intensity in foreign markets. These country and market specific proxies for transaction cost and expansion risk driving factors are complemented by indicators of (1) the embeddedness of entry events into overall internationalization patterns of MNO and of (2) the MNO engagement timing in a foreign market. The latter is captured by entry rank and timing with regard to the closeness of the focal entry date to that of the launch date of the first digital commercial mobile service offer in a country market. Geographic proximity and economy size, as well as the control variables company size, foreign sales share, separate capital market listing, relative investment size, and actual completion of an announced expansion move did not significantly affect MNOs' choice of cross-border entry mode.

Keywords: Cross-Border Takeover or Joint Venture, Foreign Direct Investment, Internationalization, Mobile Network Operators, Mode Choice, Telecommunication Industry.

1. Introduction

Since the early 1990s telecommunications industry firms made numerous international expansion moves, especially into cellular mobile network markets of various countries. Foreign entries of mobile network operators (MNO) varied regarding (1) equity share (i.e., minority vs. majority) and (2) degree to which new or existing assets were used (i.e., greenfield start-up or engagement in established operator). Further they displayed differences in terms of their timing features (e.g., pioneer vs. follower entries) that are interrelated to the two other entry mode characteristics just mentioned. Reviews of the large number of cross-sectional empirical studies on determinants of type of entry mode in a foreign country find that results do not provide a clear picture of such factors. They conclude that future studies should also take into account industry specific settings (Sarkar & Cavusgil, 1996, pp. 844-845; Shimizu et al., 2004, pp. 311-324; Zhao et al., 2004, pp. 531-533).

The heterogenous pattern of results may be taken to suggest that cross-border expansion moves depend on an array of target country, market and strategy characteristics that are also highlighted in transaction cost economics and in scholarly work on resource- and market-based explanations of a company's competitive advantage (cf. Chang & Rosenweig, 2001, pp. 748-753; Brouthers & Brouthers, 2000, pp. 90-92; Hill et al., 1990, pp. 118-126; Somlev & Hoshino, 2005, p. 579; Tihanyi et al., 2005, p. 272; Zhao et al., 2004, pp. 524-527). Among others, a target country's cultural distance to the home country of the firm expanding abroad, its level of overall economic development, or the competitive intensity in the target country's national market entered by the regional diversifier, timing features, an expanding firm's size and international exposure may shape the mode choices of internationalizing firms.

Unfortunately, empirical studies incorporating a *larger set* of variables taken to reflect country-related transaction costs, firm characteristics and timing features to explain international entry mode differences are relatively scarce. In addition, most pertinent work draws on data covering an unspecified range of industries, which in most cases gravitates around manufacturing. However, telecommunications and the mobile services sector exhibit unique features that call for separate industry-focused analyses. Therefore, the present study contributes to the literature by exploring empirically a larger array of transaction cost and timing strategy explanations of two international expansion entry mode dimensions of MNO in the period from 1989 to 2004. Put differently, the present investigation's lead question is: Which target country and market characteristics that proxy transaction costs of international diversification and which timing features contribute significantly to the prediction of MNOs' cross-border entry mode choices?

The relevant MNO choices are structured along two dimensions that were taken into account only singularly or partially in previous studies (cf., Brouthers, 2002, p. 210; Chang & Rosenzweig, 2001, p. 748; Erramilli & Rao, 1993, p. 27; Harzing, 2002, p. 216; Hennart & Reddy, 1997, p. 4; Somlev & Hoshino, 2005, p. 587) (see Figure 1): First, entry mode choices are distinguished according to the level of control achieved and commitment required by an MNO through obtaining a (a) minority or (b) majority equity share in a foreign investment. Second, the asset base or history of an entry differ depending on whether a local MNO is involved in the expansion move which is (a) already commercially present in a country (i.e., a participation in an established corporation) or (b) created anew as a start-up founded by an expanding MNO alone or in cooperation with various partners as a joint venture (i.e., greenfield).

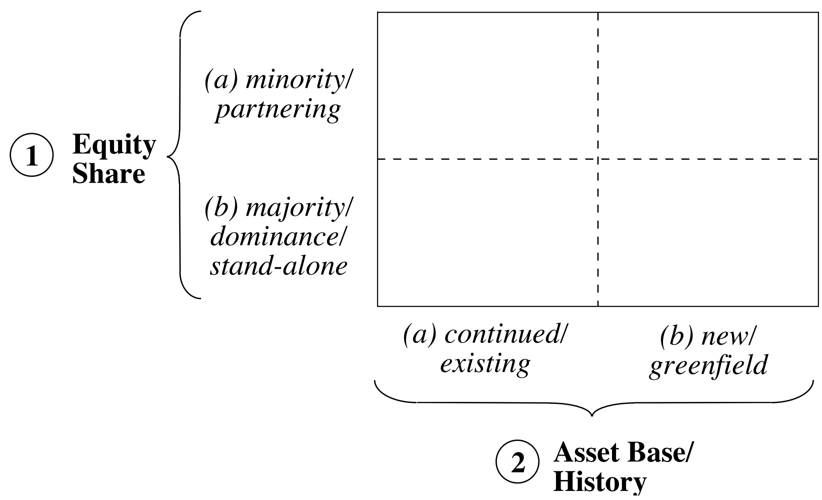

Figure 1: Two dimensions of entry mode choices