



Work in Progress

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Internationalization Degree and Financial Performance Of European Mobile Network Operators

Torsten J. Gerpott^{*}/Nejc M. Jakopin^{**}

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^{*} Univ.-Prof. Dr. Torsten J. Gerpott, Lehrstuhl Planung & Organisation, Schwerpunkt Telekommunikationswirtschaft, Universität Duisburg-Essen, Lotharstr. 65, 47057 Duisburg.

^{**} Dipl.-Kfm. MBA Nejc M. Jakopin, Lehrstuhl Planung & Organisation, Schwerpunkt Telekommunikationswirtschaft, Universität Duisburg-Essen, Lotharstr. 65, 47057 Duisburg.



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für die Telekommunikations- und Medienwirtschaft

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Kontakt:

Förderkreis Zentrum für Telekommunikations- und Medienwirtschaft e.V.
Eichendorffstr. 20a
40825 Ratingen-Lintorf
Tel. 0203-3793109
Fax 0203-3792656
Internet www.zf-tm.de
Email kontakt@zf-tm.de

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Abstract

Specific internationalization steps of single mobile network operators (MNO) such as the hostile takeover of the German *Mannesmann* corporation by the British *Vodafone* group have received substantial public attention. Nevertheless, there is a dearth of scholarly research using quantitative indicators to capture facets of the degree of business internationalization and associations between this internationalization extent and financial performance measures in a sample of major MNO originating from Europe. Therefore, this study gathered internationalization data from 14 European MNO for the 7-year period from 1997 to 2003. The firms had an overall proportionate mobile subscriber market share of 80.2% across 27 European countries at year-end 2003. Their average foreign revenue (subscriber) share rose from 11.4% (15.6%) in 1997 to 46.2% (52.2%) in 2003. The dispersion of internationalization degrees in the sample was high and has remained fairly similar since 1999. This suggests that major European MNO did not experience or perceive the same pressures to expand their operations abroad. No evidence of significantly positive associations between foreign revenues and subscriber shares as internationalization degree indicators on the one hand and three accounting-based criteria of MNO group financial performance on the other hand was found. This result is taken to imply that (1) executives of MNO with high degrees of internationalization had not yet been successful in transforming potential into actual internationalization advantages, (2) more detailed studies on foreign market selection, entry modes, and management procedures balancing integration and autonomy requirements in running foreign MNO affiliates may uncover circumstances under which internationalization degree–performance associations for MNO are significant, (3) national regulators should not feel obliged to implement special remedies to enhance the survival probabilities of less internationalized MNO which originate from their own domestic country and compete against strongly internationalized MNO.

Keywords: Degree of internationalization; Foreign direct investment; International telecommunications; Mobile network operators.

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1. Research background and questions

Cross-border telephony connections have been an element of wireline operators' service offers for decades (cf. Einhorn, 2002, pp. 60-62; Henten, 2001, p. 405). However, "real" internationalization of wireline telcos has not emerged until the 1980s when carriers began to buy equity stakes in operators outside of their home countries and to create new ventures abroad (Johansson, 1994, p. 471). Prerequisites of these actions were the privatization of state-owned operators (= incumbents) and the opening of wireline markets for competition (cf. Gerpott, 1998, pp. 58-62, 94-97).

Starting in the early 1990s, internationalization of telcos received an additional impetus by the licensing of digital mobile networks in numerous countries with most of these networks using the GSM (Global System for Mobile Communication) standard. As a result, privately owned corporations gained opportunities to obtain licenses for these new networks and to compete against former incumbents in the mobile communications market segment (Sarkar et al., 1999, p. 370; Stienstra et al., 2004, pp. 274-275). Specifically, established mobile network operators (MNO) with the necessary financial backing acquired mobile spectrum licenses in foreign markets to set up new networks either on their own or, mostly with the help of local partners. Since international expansion is likely to require considerable human, technical, and financial resources on the one hand and to promise additional revenues from customers not served in the past on the other hand, it constitutes a growth strategy with the potential for substantial impacts on firm performance (cf. Capar & Kotabe, 2003, pp. 345-346).

Over the past years, public attention to MNO internationalization trends was occasionally very high due to spectacular international MNO transactions such as *Vodafone's* acquiring of *Mannesmann*. Nevertheless, there is a dearth of scholarly research providing quantitative data on the non-domestic business evolution of a sample of significant MNO. Rather, qualitative-casuistic descriptions of only one telco or a few telco cases prevail (cf. Paterna, 1996; Ehrmann & Steiger, 1998; Giger, 1999). Further, previous analysis had to rely on crude measures of internationalization due

to the early state of market development (cf. Kashlak & Joshi, 1994, p. 608). Therefore, a first purpose of this study is the analysis of internationalization patterns of mobile telcos across a number of years using quantitative indicators to purport various facets of MNO business activities outside their domestic markets. This analysis is needed to move beyond vague business press stories on MNO internationalization to more precise evidence testing the validity of the popular notion that the degree of MNO internationalization has substantially increased during the past 10 years.

From a corporate business policy perspective, the degree of MNO internationalization derives its importance as a corporate strategy from its potential to go along with higher or lower MNO corporate financial performance. The general tenet held by many industry executives and consultants is that more extensive international MNO business operations coincide with above average financial success (cf. Ioannidis, 1994, p. 398; Nederkoorn, 1997, p. 38). This view is hotly debated in the academic community of international business researchers (Annavarjula & Beldona, 2000, p. 55). Since clear conclusions concerning the internationalization–performance relationship cannot be drawn from earlier work, a second purpose of the present study is to explore this association in a sample of MNO originating from European countries.

To sum, this paper addresses the following two research questions related to foreign direct investment-based business internationalization of MNO:

- How has the extent of internationalization of major European MNO evolved from the mid-1990s until 2003?
- What associations exist between MNO internationalization degree measures and financial corporate performance criteria?

2. Conceptual considerations

The conceptual surroundings of the research questions can be made clearer by relating them to three core issues covered by international business scholars. First, researchers are interested in reasons for and determinants of firm internationalization (*Why?*). Second, different ways of going abroad—i.e., entry modes—and strategies of conducting business across foreign countries are analyzed (*How?*). Correlations