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Firm and Target Country Characteristics as Factors Explaining Wealth Creation from International Expansion Moves of Mobile Network Operators

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Content

Abstract

- Although mobile network operators (MNO) have executed numerous international expansion moves over the past two decades industry-specific empirical research on shareholder reactions to such moves and on factors explaining differences of the wealth effects of international expansion moves is scarce.
- Using the event study methodology, the present investigation empirically estimated the impacts of 138 major expansion steps into foreign mobile communication services markets announced by 29 large MNO during the period from December 1989 to December 2004 on "abnormal" market value changes of the expanding MNO and sought to explain differences in cumulative abnormal shareholder returns related to an announcement by four characteristics of the expanding firm (e.g., foreign experience) and eight characteristics of the country targeted by an internationalization step (e.g., economic prosperity).

Key results

- On average, MNO internationalization move announcements had insignificant effects on the value of expanding MNOs' stock suggesting that expansion to foreign mobile communication service markets is not assessed *per se* as a strategy contributing significantly to shareholder wealth changes of the expander. However, the variance of the cumulative abnormal return effects across all expansion moves analyzed was large.
- Most of the firm and target country characteristics were not suited to explain a significant proportion of MNO value change variance coinciding with an international expansion move. An exception to this results pattern is the target country characteristic "competitive intensity" among the MNO in the foreign country's mobile communication market which displayed a significantly negative effect on the market value change of MNO announcing an international expansion move into the focal target country.

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

JEL-code: F23, G14, L96.

1. Introduction

Since the early 1990s telecommunications industry firms made numerous international expansion moves, especially into cellular mobile network markets of various countries. Executives of telco operators generally claim that such internationalization actions help to improve the performance of their firms (Deutsche Telekom 2002, p. 8-10; Nederkoorn 1997, p. 38; Vodafone Group 2004, p. 4-5). Nevertheless, from a conceptual perspective it appears unlikely that all internationalization moves have similar positive effects on a firm's equity value (Fransman 2002, p. 141-142; Gerpott 2000, p. 27; Mandela 2002, p. 10-11). In fact, a plethora of empirical studies on the degree of internationalization–firm performance relation provides no clear support for significantly positive associations between these two blocs of variables (Glaum 1996; Ruigrok/Wagner 2003a). Further, a recent empirical investigation focusing on internationalized European mobile network operators (MNO) found no evidence consistent with the notion of positive internationalization effects on (accounting-based) firm performance criteria (Gerpott/Jakopin 2005).

This pattern of results may be taken to suggest that the impact of cross-border expansion moves on a corporation's shareholder value depend on an array of firm and target country characteristics highlighted in scholarly work on resource- and market-based explanations of a company's competitive advantage and on innovation diffusion across countries. A company's size, intangible asset stock and international experience may affect its ability to generate value for its shareholders from international expansion moves. In a similar vein, a target country's level of overall economic development, its cultural distance to the home country of the firm expanding abroad or the competitive intensity in the foreign playing-field entered by the regional diversifier may also shape the value generation potential of an internationalization step. These arguments should also be applicable to MNO, which are in the center of interest of the present research.

Unfortunately, empirical studies incorporating a larger number of firm and target country characteristics to explain differences in company performance criteria changes after internationalization moves are relatively scarce. In addition, most pertinent work employs accounting-based or perceptual measures of company performance changes in the context of international expansion strategies and neglects criteria tapping directly shareholder reactions to such strategies. Therefore, the purpose of the present study is to explore empirically the tenableness of hypotheses derived from resource- and market-based arguments on firm and target country characteristics as explaining factors of shareholder wealth changes following international expansion announcements of MNO in the time period from 1989 to 2004. Put differently, the present investigation's lead question is: Which firm and target country characteristics account for a significant proportion of shareholder wealth change variance across MNO internationalization events?

2. Development of hypotheses

2.1. Firm characteristics

MNO firm characteristics may affect the perception of MNO cross-border expansion steps by the capital market because shareholders could use these features as auxiliary quantities in estimating the expected cash flow changes resulting from an internationalization decision. Previous empirical work and conceptual reasoning stemming from so-called resource-based views of a corporation's sources of competitive edge suggest that firm size, availability of intangible assets, foreign experience of an internationally expanding MNO and an MNO's focus on mobile relative to other telecommunication service offerings are among such organizational signaling variables.

With regard to firm size, Trillas (2002, p. 272) argues that larger telecommunications network operators have a larger potential for realizing (additional) economies of scale and scope through external growth via cross-border mergers and acquisitions or joint ventures. However, this suggestion is not conclusive since the effect of additional size and scope is comparatively smaller for firms that are already large. To the contrary, size and scope advantages could be more relevant for smaller firms assuming that they benefit to a larger extent from initial and incremental scale and scope effects from internationalization than their larger counterparts. Further, differing capital market reactions can be traced back to the relevance of events in relation to the expanding firm's operational magnitude. For instance, the foundation of international joint ventures by smaller companies was found to coincide with higher abnormal returns compared to joint venture formation by larger companies because the event had been relatively more important for the small firm's growth prospects (Merchant