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EXPLAINING GLOBAL TELECOMMUNICATIONS ALLIANCES:

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# EXPLAINING GLOBAL TELECOMMUNICATIONS ALLIANCES: THE CASES OF CONCERT AND GLOBAL ONE

By

Véronique Wendling

A THESIS

Submitted to
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# ABSTRACT

## EXPLAINING LOBAL TELECOMMUNICATIONS ALLIANCES: THE CASES OF CONCERT AND GLOBAL ONE

By

Véronique Wendling

Many alliances are created nowadays in the telecommunications sector in order to answer to the changes in the environment and in the telecommunications sector. One key word is globalization. Telecommunications firms need to form alliances to be able to offer worldwide services. Sometimes the need for a partner is so strong that firms will not take into account all the criteria for the choice of a partner. As a result, the alliances that are created might not be very stable. Also, these alliances are meant to offer global services, but are not really able to do so yet. To show this, this study first reviews some theory about alliances, both general and more specific to the telecommunications sector. Then, it takes the form of a case study, and focuses on two of the main alliances between telecommunications operators, Global One and Concert.

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A thesis like this would not have been possible without the support and advice of my professors of the department of Telecommunications. I want to thank them for the help they provided me during my stay at Michigan State University.

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# Chapter 1

# INTRODUCTION

In a world where telecommunications are playing a greater role in daily business, both the demand and offer for services is changing. International companies need to be able to communicate more effectively worldwide, and telecommunications operators see more possibilities of entering foreign markets. Due to both a change within the telecommunications sector, where many countries are opening up to competition, and changes in the global economy, operators are increasing their international operations. The 1996 Telecommunications Act in the United States has allowed local and long distance companies to enter each other's markets, and in 1998 there will be competition for all telecommunications services in the European Union. As a response to all these changes there has been a number of recent announcements of mergers and. It is common to hear that the telecommunications industry is undergoing major changes, and that a few years from now it will be totally different from what we know.

Therefore, it seems interesting to take a closer look at the phenomenon of alliances. All telecommunications operators of industrialized countries are now trying to enter foreign

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markets, and mostly they choose to do so by entering alliances. This study will use a very broad definition of the term alliance. It is taken as any form of cooperation between two or more firms, but which really involves long term common projects. Alliance is seen as meaning an agreement between firms to work together for a long period of time, offering services together, implying a real involvment from the part of both sides. The actual form that these agreements take can vary, but is not a limiting factor in this study. As a consequence it is possible to show that there are various possibilities to achieve the result of effective cooperation. To try to understand this a little better, this study examines two of the biggest alliances, BT and MCI's Concert and Sprint, France Telecom and Deutsche Telekom's Global One. These two joint ventures are aiming at offering global services, first to large corporate users, but also to residential customers in the long term.

Using a case study methodology, this study shows that telecommunications operators choose to enter alliances because they provide a good way to respond to the changing environment. Customers want to have services that respond to their needs, and that are available worldwide. To meet the increasing demand, the telecommunications operators need to form alliances because they do not have the capacities to do it on their own. Moreover, conditions within the telecommunications sector are changing, with many markets opening to competition. As a consequence operators want to enter new markets as well as to protect their own. Creating alliances allows both. Firms obtain access to new markets through their partners, and by having non-competition agreements with them they also protect their domestic markets. Hence there are conditions both general and specific f

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to the telecommunications sector that encourage the creation of international alliances. The need for a partner in different parts of the world is in fact sometimes so great that firms will overlook some important criteria of compatibility when choosing their partners. The result is that alliances such as Global One or Concert are created with ambitious goals of offering global services. But the alliances turn out not to be very stable and are still not able to offer truly global services as they intend to.

To show this, the study will first review some theory about alliances, both in general and more specifically in the telecommunications sector. This theory will lead to some statements or hypotheses concerning why firms enter alliances, what the criteria are for the choice of a partner and some conditions more specific to the telecommunications sector. The next part will focus on the cases of Global One and Concert to see if the hypotheses apply for them. This will show to what extent general theory can be applied in the telecommunications sector, and what partners look for when creating such alliances. One of the purposes of this study will also be to see if the so called "global alliances" that are Global One and Concert are really able to offer global services, and how they fit in the different partners' strategies. Are they really doing this to meet a new kind of demand, or are there other reasons, like protecting themselves for upcoming competition? The aim of this study is not to prove or contradict the theory by some practical examples, but it is more an attempt to understand the changes that are going on, to see if it is possible to link them with some theory, and see if it can apply in the two specific cases I am studying.

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# Chapter 2

## THEORY AND LITERATURE REVIEW

This part will be a study of the theory about alliances, in order to find some hypotheses concerning the creation and actions of international alliances. The references used will be articles and books about partnering and alliances in general, and some more specific to the telecommunications sector, so that its particularities are taken into account.

The theory will be divided into three parts. The first part will assess the general external reasons like globalization that motivate companies to enter alliances. It will try to see how and why partnerships can be an answer to changing conditions. The second part will focus on the criteria for the choice of a partner. What are the important points to look at when creating an alliances, how to have the best chances of a successful result. Finally , the third part will concentrate on the specific telecommunications sector. The aim will be to see why alliances are a solution that is chosen by a great number of operators nowadays. Also, it will attempt to see what the goal of these alliances exactly are.

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## 2.1. Why do firms enter alliances?

In the first part of this study of theory, the reasons that make companies decide to enter into alliances are examined. To do so, four different aspects will be taken into account: The general external conditions, mostly economic and environmental; The changes in the industry in which the company is operating, that create new conditions; The attitude and position of competitors; Finally, the internal motivations, the things that firms want to achieve which can be done better with partners.

### 2.1.1. External conditions

One term that is often cited when talking about today's economy is globalization . It is a word that is commonly used today to describe the market. This will explain what globalization really means, and what forms it can take through the views of different authors.

Osland and Yaprak (1994) argue that globalization can be used to describe markets, consumer tastes and knowledge. This means that more and more, consumers all over the world expect similar products, that many companies have sufficient knowledge to produce technologically up to date products, and that they have sufficient international presence to introduce them in most of the world's big markets.

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While the two latter points can be accepted as true without discussion, by simple observation of the marketplace, the one about consumer tastes can be discussed. Indeed, there are still a lot of cultural and social differences between and even within countries, which lead to differentiated tastes and expectations concerning products. Still, in telecommunications, this aspect is not as important. Communications needs exist in every country, and whatever the culture and the message that needs to be put across, there is a unique technology that makes it possible. Therefore, saying that customer needs are becoming global in the telecommunications sector is founded.

Ohmae (1989) makes the same statement when he says that consumer needs and preferences are converging, and he even goes as far as saying that "globalization makes (alliances) essential as vehicles for customer-oriented value".

Osland (1994) also finds that global conditions are changing. He mentions global proliferation of technology, reorganization of economic boundaries, and intensified global competition. Currently, firms face greater difficulties trying to manage these phenomena on their own. The reason for this is that entering into the globalization process and offering products and services that fit into this requires huge capacities. Therefore, entering into alliances becomes a need. When two or more firms unite they can face these changing conditions in a more successful way.

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More specifically, in the telecommunications sector globalization has the following consequences or characteristics: there is an increasing number of multinational firms, needing efficient communications means throughout the world. Also, international relations are increasing between firms, and residential users, as they travel more, need to communicate on an international basis.

Another consequence of globalization on the environment is that it is becoming increasingly unstable. Changes happen very fast, and are difficult to predict. To face this uncertainty, alliances can be a great help, especially international ones, because they allow firms to benefit from each other's knowledge of specific markets. This way they can anticipate changes more efficiently and react to them in a more appropriate way.

Finally, linked to the globalization of markets, Ohmae (1989) notes that the "cascade model of expansion" does not work anymore. This means that firms can no longer enter markets one after the other, they need a global presence right away if they want to be successful internationally. Here again, international alliances can be a great help, with the various firms having an established presence in various countries.

So it seems that the most important factor in external conditions leading to the creation of alliances can be summarized in one word: globalization. This is true as well for the general economy as more specifically in the telecommunications sector.

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### 2.1.2. Changes in the telecommunications industry

When looking at a specific industry, it is possible to find out reasons more precise than "globalization" to explain the formation of alliances.

One example is that there tend to be more joint ventures, which are a form of alliance, in industries where there is a high exchange of sales and purchase transactions, and which are technologically intensive (Kogut, 1988). Concerning telecommunications, the second point is clearly applicable: it is without any doubt a technologically intensive industry. On the other hand, sales and purchase transactions are not an important part. Telecommunications is more based on services, and on the use of installed infrastructure. This does not mean that criteria for making alliances are not met. Indeed, a single firm can no longer have the sufficient infrastructure to meet the demand of customers on an international basis. Therefore telecommunications companies need the combined assets provided by an alliance. In this respect, telecommunications does not obey to the criteria found by Kogut to be an industry where alliances are likely. But there are other reasons that explain the formation of alliances, which make as much sense.

Another reason is mentioned by Kogut (1988) concerning criteria for the use of alliances: he argues that the use of international joint ventures declines as the importance of technology, marketing, and product standardization increases. This can be justified by the following reasoning: the more everything is standardized, the lesser knowledge is needed to satisfy the demands of the various markets. Once a firm is able to serve one mar

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market, it will need few if any additional skills to expand beyond it. Therefore, there is no real need for a partner. If a firm has all the knowledge and capabilities at hand, it will make more profit on its own that by teaming up with another company. However, in telecommunications, even if standardization is increasing, an individual firm cannot operate on a truly global level. The costs are too high, and it would take too much time for a single company to get ready to offer global services given the increasing competition in this sector. So in spite of growing standardization, alliances are likely to be created in the telecommunications sector.

Firms to be aware of the changing industrial conditions that make them want to look for partners (Kanter, 1994). Therefore it is necessary to see what these changes are, and if they are taking place in the telecommunications sector.

As has been noticed in the previous part about external factors, globalization is a general trend in most industries. It is also taking place in telecommunications, with a growing need for international communications. More and more firms outside of telecommunications are growing internationally. Therefore, to compete on the global market their international offices need to have effective communications. Up to now, most telecommunications operators were national. This means that in most countries there is one big operator, with little if any competition. Until a few years ago, the market was considered to be best served by only one firm. There was a need to build infrastructure, and the ideas of public interest and universal service led to telecommunications services being a state monopoly in many countries. This is currently changing, and the market is bein

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being opened to competition. This means that operators will have the right to enter each other's markets, and offer services in all countries. Competition has been the rule for some time in the United States now, and is being set up in Europe. By 1998, all services should be open to competition within the EU.

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This means that companies see new markets opening for them, and they are trying to get advantage of this situation. Unfortunately, offering services on a global scale is not within the reach of most national companies. Therefore, to be able to compete on a global scale and enter foreign markets quickly, alliances between operators from different countries are a possible solution. So we see that another criterion that Kogut (1988) points out as a possible motivation for creating alliances, response to government regulation, is met in the case of telecommunications. Deregulation is happening in the US and in Europe, which leads to new possibilities. Therefore firms need to cooperate in order to take advantage of these markets and compete.

However, even with deregulation taking place, government around the world still have antitrust policies. All joint ventures are not accepted. Dennis Yao (1995) explains what the concerns of governments are, and gives the reasons why some alliances are not accepted.

In the United States, there are legally two ways to block alliances. The first method consists of challenging an existing alliance because its actions lead to restraints of trade. This is based on the texts of the Sherman Act and of the Federal Trade Commission Act.

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The second method which is based on the Clayton Act seeks to stop the alliance from being created, because it could "substantially lessen competition or tend to create a monopoly. Of course, it is easier to prevent an entity from being created than to find an effective remedy afterwards. This is why great attention is given to alliances and their potential effects before they are effective.

The rules that are used to examine joint ventures are about the same as those for horizontal mergers which have been set by the 1992 Horizontal Merger Guidelines. The basic rule is that joint ventures should not "create or enhance market power or facilitate its exercise in any relevant market". To make sure this does not happen, a thorough examination of the markets, market shares, conditions of entry and likely anticompetitive effects needs to be conducted. Generally creating a joint venture is not anticompetitive, because it creates a new firm competing in a given market. However, there are some exceptions to this rule. For instance, if the new venture competes in the same market as one or several of the parent firms, the partners might find it more interesting to coordinate their activities with those of the new entity, and as a consequence competition might decrease. Another possibility is that the new venture is created to enter a market in which the parents are not operating but might have entered later. As a consequence the parents may change their strategy and decide not to enter that market, so the potential for competition decreases. A third danger of joint ventures for competition is that they might lead to coordination of the parents' activities, which is also against free competition. Finally, the joint venture might constitute a barrier to entry in the downstream market.

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So generally joint ventures are accepted, but depending on the industry and the size and strength of the new entity, government can oppose them. Knowing that telecommunications firms are usually large, at least on a domestic scale, all attempts to create alliances will be and are looked at carefully before they are accepted.

This quick overview of the motivations linked to the changes in the telecommunications industry has showed us that there are good reasons for firms to try to team up. However they need to be careful in what they attempt to do, because if the alliance seems to lessen competition, it will not be accepted.

### 2.1.3. Relations with competitors

Now that the general conditions which can lead to the creation of alliances have been studied, another factor of great importance will be focused on: competition. Indeed, when an alliance is created, it is usually competitors that become partners. Therefore, the state of competition, the relations that a firm has with its competitors, and what it expects from them in a alliance is very important. Culpan (1993) finds three kinds of environmental forces that can lead to cooperative ventures: Intense international competition, technological advancement, and globalization. We have already discussed the part about globalization, and the two other ones are related to competitors, and relations between them.

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In a first approach, it seems contradictory that intense competition would lead to firms getting together. But it is a fact that the number of alliances is growing. Again, the explanation might be that competing firms get too big, and markets too hard to enter, so that a company can not make it on its own anymore. So what are the things that a firm should expect from a competitor when entering an alliance?

Kogut (1988) made the observation that most joint ventures seem to be created by parents from the same industry of intermediate concentration. Clearly, the concentration in the telecommunication industry is very high, since there are at the most only a few big operators in each country. Until now, there is even only one in a given country in most countries, such as in Europe. But the markets are opening up, and all those big players of the industry are going to be in competition with each other, which creates uncertainty. Kogut's point, which is that in these kinds of industries, where oligopolistic rivalry is difficult to stabilize, alliances are created to reduce the uncertainty, seems to be applicable concerning telecommunications.

Gomes-Casseres (1989) makes a similar statement. He argues that alliances are created when competition is too strong in new markets, and competitors have well established reputations and distribution networks. This is certainly applicable in telecommunications, where, at least in the most industrialized countries, there is usually one, sometimes two or three, major players. They are well known by the public, and have the needed infrastructure to offer quality services. This means that it is going to be very hard for anoth

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another company to enter these markets and compete with the incumbent. Having powerful partners can make it easier.

But alliances can also be explained from another point of view. For example in Europe markets are currently opening, and soon there will be open competition for all telecommunications services. Incumbents are afraid of their neighbours, and try to find ways to protect themselves. Alliances are a solution. When France Telecom allied with Deutsche Telekom, it made sure that Deutsche Telekom would not be a competitor in the French market, and vice versa. So alliances become a way to limit the number of potential competitors. This view goes against the idea that joint ventures increase the number of competitors, and it is certainly not the one that prevails when the governments give their approval. But it is certainly taken into consideration by the partners, who try to take advantage of the most opportunities, but also want to protect their home market.

Osland and Yaprak (1994) find that firms nowadays create alliances in order to learn something from their partners. The aim is to "transform their core competencies, perhaps even changing the bases of competition in their industries". Again, the idea is to collaborate with your partners in order to put all the chances on your side, and benefit from the situation. This might lead to a reorganization of competition in an industry.

We have said before that another major environmental force that leads to cooperation is technological advancement. Many authors support this idea. Ohmae (1989) for instance argu

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argues that in some industries there is currently too much technology for a single company. One firm cannot stay up to date in all areas needed to be competitive, so it needs to get together with other competitors, to benefit from their technology and skills. Gomes-Casseres (1989) also talks about need for technology, but sees it more in terms of research and development joint ventures, which he argues are created in industries where costs cannot be recouped in national markets. Telecommunications might be becoming one of these industries. A lot of research is necessary, the technology becomes more and more sophisticated and expensive.

This leads to another point, financial needs and capacities. Kanter (1994) points out that alliances can be used as an alternative to acquisition, when a firm does not have the financial capacities to buy another one. However, this rarely leads to successful alliances, because as we will see later on, there is a need for strong motivation and common goals in order to make an alliance successful. Still, strengthening the financial position is certainly a reason for firms to enter equity-based alliances. Creating an alliance means being able to share some costs. And according to Ohmae (1989), one of the consequences of globalization is the increasing of fixed costs, because what used to be variable costs becomes so important that it turns into fixed costs. This is true for manufacturing, R&D, building and maintaining a brand name, training and supporting the sales force, and information technology. Having partners helps amortizing all these costs over a larger market base, and managers try to find strategies that maximize contribution to these fixed costs. This logic leads to the search for alliances and global strategies. Culpan (1993) make

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makes approximately the same point when he talks about transaction costs theory, which predicts that "strategic alliances are designed to achieve such a minimum cost arrangement". However, this theory does not explain the creation of new markets, since it assumes that firms only have reactive strategies and want to keep their position in an existing market.

So this part has showed that what firms expect from their competitors when entering into partnerships with them is a reduction of uncertainty, and an increased capacity to stay up to date with the necessary technology.

#### 2.1.4. Internal motivations

Now that the external conditions are that lead to the creation of alliances have been studied, as well as what is expected from the future partner, the final point will focus on the internal motivations of a firm to enter an alliance. These are also very important, because if a firm does not have strong internal motivations , the alliance is very likely not to be successful, as it will need a lot of dedication and work to achieve positive results. A firm needs to be convinced that it needs a partner in order for it to be ready to do the necessary efforts to make it work.

According to Judith Schmitz (1995), who wrote a thesis on "Design and evaluation of a general alliance model", the starting point of the idea of creating an alliance is the awa

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awareness of a problem, usually uncertainty, and the idea of a possibility of an improved system. This goal of reducing uncertainty has been underlined by many authors. Osland and Yaprak (1993) point out that "companies find a gap between what they would like to achieve and what they are able to achieve". As a consequence, they enter alliances looking for market power, efficiency, and competencies. Indeed, having partners in other countries can make access to new markets easier, and is a way to react to governmental trade restrictions. Also, collaborating with other firms can allow to acquire new patents, and be ahead of other competitors. It can also facilitate a quicker entry into new markets. Finally, it can help to diversify and turn to more favorable businesses.

According to the same authors, efficiency gain translates into decline of costs per unit for all involved partners. Kogut (1988) sees these two motivations in the creation of joint venture as well: some studies he used in his article show evidence for both a market power and an efficiency argument for joint venture motivations.

The last point, competencies, can be gained through organizational learning, individual-specific or firm-specific knowledge.

Culpan (1993) also cites reducing uncertainty as a goal in strategic alliances, as well as stabilizing the flow of resources and the company needs. Finally, Osland (1994) uses other terms but they come down to the same motivation. He talks about a firm's will to understand changing market conditions better and to increase its confidence in decision making.

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Besides this general idea of reducing uncertainty, authors have also studied what expectations and conditions lead to alliances, and in which case they are more likely to be successful. They all come to the same conclusion: alliances are a good choice when a firm wants to learn new things, when it wants to expand its capability into new fields (Gomes-Casseres, 1989). Kogut (1988) also found out that joint ventures are more likely if they entail product diversification, and if the goal is to acquire local expertise in new areas. Anderson (1990) argues that alliances are created to learn a technology, open a market, or block a competitor. They are likely to work if the firms want to learn something, like an unfamiliar market, a technology, or a management technique. Osland and Yaprak (1994) say that firms create alliances when they are seeking opportunities to transform their core capabilities, and reshape the competitive structure of the industry they are in.

It all comes down to the same point: "Corporate alliances are a time-tested tool to broaden a firm's activities, to penetrate new markets, and to gain market share" (Deck and Nevaer, 1990). What these authors are all saying, is that firms that enter alliances need to have some idea of change, of learning something new. Alliances are generally less appropriate and less successful when they are created just to exploit an existing competitive advantage. The goal has to be to create a new one, and some of the competitive advantages that can be brought by strategic alliances are: "relative cost advantage deriving from economies of scale, differentiated products because of superior technology or product quality, or segmenting markets and appealing to only a limited group of consumers or industrial buyers" (Culpan, 1993).

So this study about why firms want to enter alliances shows that authors mostly agree on this point. The general external conditions that lead to an alliance is globalization. Besides this, more specific motivations due to the telecommunications sector characteristics would be the opening of markets, and changes in regulation. Again, in those conditions of globalization, firms cannot face the big competitors or enter new markets on their own, and they find that both partners could get benefits from alliances. Internally, a firm usually decides to enter an alliance when it wants to develop a new competitive advantage, and it realizes that it cannot do it as well on its own.

Hypothesis 1: *Firms in the telecommunications sector enter alliances to enable them to get new competitive advantages in the face of the opening up of markets or more generally of globalization.*

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## 2.2. Criteria to choose a partner

Once a firm has analyzed itself and its environment and has decided that it is necessary to find a partner, the next step is to find a right one. This is not an easy task, and a great number of alliances fail because the partners that created it were not compatible.

First, the various forms that alliances can take will be studied, depending on the size and goal of each partner, to show that the outcome is not always positive. Then, a number of criteria that need to be met in order to maximize the chances of ending up with a successful alliance will be listed. Finally, a specific process that firms can follow when trying to find a partner will be described.

### 2.2.1. Different types of alliances and their outcome

Joel Bleeke and David Ernst (1995) have found an interesting classification of alliances. They found that most alliances enter in one of the six categories that they have created, and that within these six categories, only one type of alliance does not carry the risk of unanticipated sale. It is worth looking at this classification of alliances, since it provides an understanding for what should be to form a long-term alliance.

According to the authors, the two first types that they show almost always turn out to be failures, and should be avoided at all times. They called these two types "collision between two competitors", and "alliances of the weak". The names are quite explicit.

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Sometimes managers are tempted to choose direct competitors as partners because they have the same goals, and that creates great short term synergy. But this usually does not last long and the two firm end up having conflicts because they want to expand their businesses based on the same opportunities. This is why "collision between two competitors" type alliances rarely work out well. The second type, "alliances of the weak", brings two or more weak companies together, hoping that they will become stronger together. However, if there is no competitive advantage at the start, there are few chances that bringing the firms together will change anything to this, and when problems arise, the alliance does not have the necessary resources to face them, and the companies need to spend too much time on their own problems to be able to give enough attention to the partnership.

Two additional types of alliances involve both a strong and a weak company. The difference here is that although the alliance is not likely to last for a long time, it can still be profitable for one or even both partners. Bleeke and Ernst called the first one "disguised sales". In this case, the alliances takes place between a strong and a weak company that are in direct competition. Usually the outcome is that the stronger company ends up acquiring the weaker one, or at least the part of its business that is concerned. The weaker company should be aware of that likely outcome when entering the partnership, and clearly separate the part of business that will end up being bought up, which will then allow it to concentrate on the rest of its business and make it stronger.

The second type of alliance involving a strong and a weak company is the "bootstrap alliance". Is this case, the two firms are not in direct competition, but they are complementary, and the weaker one hopes to learn through the partnership, and become stronger. However, this often does not happen, the weak company stays weak and ends up being acquired by the strong one. To make this type of alliance work, the strong company must have the right skills and be willing to teach them, not to acquire its partner, and allow enough time for its partner to grow stronger. This is rarely the case, and the weak partner should anticipate the sale in the same way as for "disguised sales" alliances. What can help the weaker company in this case is government regulations: to be allowed to enter some countries, foreign companies are obliged to transfer technology to gain access to the market, and are prohibited to acquire their partner. This happens in telecommunications, in particular for Eastern European countries.

Finally, Bleeke and Ernst (1995) have identified two types of alliances involving two strong partners. They have called the first one "evolution to a sale". This type of partnership starts with two strong and compatible partners. However, with time, some conflicts can arise, or the power may shift, and one of the partners ends up selling to the other one. This usually happens after some years, and both parties usually profit in the end. As in the beginning the two companies are of equal strength, the partners must be careful when setting up the alliance to think of fair and reciprocal exit provisions, so that both are protected. Also, the alliance must be looked at regularly in order to check that both parties contribute and profit equally. If from the beginning one of the partners expresses an interest in buying the venture, it should be investing more heavily in the business.

Finally, we come to the only alliance type that is successful in the way that it lasts for a long time and profits all partners, "Alliances of complementary equals". As in the previous type, these alliances involve strong and complementary partners, only in this case there is no shift in power as time passes. In these alliances conflicts can be avoided because the firms have complementary strengths, functional, geographic, or productwise, which allows them to build on each other's qualities. So both partners benefit, and they are able to achieve things they would not have done on their own. Also of importance is the aspect that in these cases often none of the partners would be able to buy the whole venture even if it wanted to.

In this study, the most interesting case is the last one, where the alliance is successful and it lasts. Now that we are aware of what types of alliance can exist, we will try in the next part to see what the criteria are that will lead to the right choice of partner.

### 2.2.2. Some important criteria

A review of literature about alliances shows that authors generally give the same, or very similar criteria for the choice of a partner. David Faulkner (1995) summarizes it as looking for strategic fit and cultural fit. Most criteria given by all authors fit into one of these categories.

First, a definition of cultural fit according to Faulkner will be given, followed by a study of how other authors' views fit into this definition. Then the same will be done for strategic fit.

What does cultural fit mean? Faulkner (1995) insists that it does not mean two firms that want to be partners need to have a similar culture. In fact, this is very rare, especially for firms which are from different countries of origin. What's more, if two cultures are too similar, there is not much to learn, which can bring firms to the "evolution to a sale" pattern. What is more important is the need for an attitude of understanding cultural differences, of willingness to compromise. This is of course very hard to measure, and having it from the part of the chief executives of a company does not necessarily mean that all the people who will be part of the joint venture will have the same attitude. Still, this idea must be kept in mind, and in negotiations with potential partners one must be very attentive to signs that could show that this kind of attitude does not exist. Linked to this willingness to compromise is the importance of trust. This is also difficult to achieve, because trust usually takes a long time to develop, but very easy to lose at the first mistake. The attitude that should prevail is that of trusting your partner until you are proven wrong, instead of not giving trust until the partner has proven that it deserves it. The last point that Faulkner gives linked to cultural fit is the need for commitment. It has to exist from the board downwards, and show in the quality of the personnel allocated to the alliances and the resources devoted to it.

All these points are maybe not essential in order to make an alliance work at first, but they are crucial for the long term relationship between the partners.

Close to this idea of cultural fit, Rosabeth Moss Kanter (1994) talks about the importance of the personal side of the relationship. In this she means the relationship between chief executives. If it is good, they will have trust in the alliance and want to make it successful. Their motivation and goodwill can be transmitted to other people in the company, and efforts will be done to keep each other happy. Kanter (1994) also mentions a need for compatibility in legacy, philosophy and desires. In the same range of ideas, Nevaer and Deck (1990) mention the need for "some sort of synergy present in order for the strategy to make sense" (Strategic Corporate Alliances). Finally, Mack Hanan (1992) argues that "the right partner" is a relative rather than an absolute notion. Depending in the time and the situation, two firms might or might not find that they would make good partners. So the problem is cultural, but also situational.

So we see that if most authors agree on the need for some sort of cultural fit between two partners, it is a parameter that is very hard to measure, and none of them gives precise definitions of what should exist or could be measured. Therefore, this dimension will mostly depend on the personal feeling of the people who will decide on the alliance.

On the other hand, strategic fit is somewhat easier to define. More than just complementarity of core competencies, skills and assets, Faulkner (1995) defines various other important aspects that are a part of strategic fit.

First, he argues that both partners in an alliance need to be similar in strength, so that there is a balance of need between the two, even if the nature of the need is not the same. Another point that he finds important is that the firms have to be of similar size. Then, there needs to be reciprocity in the expectations, which means that each partner must need some aspect of the other's resources. This helps keeping some balance in the relationship, and as a consequence none of the partners has exclusive power over the other. Finally, the long term objectives of the partners should not be in conflict, which again does not mean that they have to be the same, but they need to be compatible.

Globally, these points are the same as the ones found by other authors.

Similarity in strength has been demonstrated as an important criterion by Bleeke and Ernst (1989), as they say that alliances between strong and weak companies rarely work. Often it seems to be the case that strong companies look for weaker partners and vice versa. This makes sense in a way: the strong firm wants to have control over the venture, and the weak one is looking for help. Still, the facts show that these kinds of alliances rarely last for a long time. Bernard Garrette and Pierre Dussange (1995) make the same point. Here the authors notice that in alliances between strong and weak companies, the weaker ones tend to increase their dependence rather than to reinforce their position.

According to Bleeke and Ernst (1989), it is not sufficient that the two firms be of similar strength. They both need to be strong, it is safer than if they are both weak. Gomes-Casseres (1989) looks at a similar point, but rather than taking strength as a basis, he compares global and local strategies of companies, saying that if a company with a global strategy chooses to ally with a company that has a local strategy, there is a risk of conflict. The conflict arises because local strategies might require lower standards, which means that the partners might not have the same approach to the market.

This leads to Faulkner's (1995) second point, similar size. Gomes-Casseres' (1989) approach on global versus local could also fit into this part, so in a way he agrees with Faulkner's view. However, Hanan (1995), has a different point of view. He argues that large firms tend to look for smaller partners, which are uniquely innovative or have vertically niched business. On the other hand, small companies need financial support, market access, or future recognition, and tend to look for larger partners. According to Hanan, it is only the midsized companies that will take partners of similar size, because they need each other to face the large competitors. While this might be how things happen, Hanan does not say what the chances of success are for alliances between companies of very different sizes. As we have seen before, they usually do not last very long. With the current phenomenon of globalization, it is not only midsized companies that need each other, but also the large companies, especially in the telecommunications sector where we see that some of the largest companies in the world look for partners to be able to offer "global services".

As a third point, Faulkner (1995) gave reciprocity in need. In other words, each of the partners must find something they do not have in the other company. A similar point can be added to that, which is complementarity. Many authors talk about this point. Bleeke and Ernst (1995) say that complementarity in skills and capabilities is crucial, that the strongest alliances are the ones in which each partner brings specific strengths, and where each has products and established markets in different geographic areas. Kanter (1994) brings the same idea with the words of "individual excellence": both partners must have something of value to contribute to the partnership, and must have complementary needs and skills. The outcome of the alliance must be that they end up doing something that each partner could not have achieved on its own. Hanan (1995) goes further than just complementarity, and says that there are two types of partnerships: those with complementary partners (the complementarity can be between two products, between product and service, or between product and sales force), but also those with supplementary partners. In this case, the technologies of the partners supplement each other to give an enhanced capability or generate a scientific breakthrough, giving new processes or new products. The final result is the same, the companies Which are allied in a partnership can achieve more than could individually.

Finally, Faulkner (1995) argues that there must be no conflict in long term objectives in order for the alliance to be successful. Here again, Bleeke and Ernst (1995) agree, and they give two examples: in the first example one partner just wants to learn from the other, in which case it does not contribute enough to the alliance, and it is likely to fail. In the second one, the manager from one of the firms wants a partner because he needs some additional capital. In this case the deal tends to be unbalanced from the start, and again the chance for success are small. Kanter (1994) also says that it is important to look at future possibilities rather than just at immediate benefits. This approach is much more frequent in Asia than it is in Western countries. Gomes-Casseres (1989) makes the same point, by just saying that the first criterion for a successful partnership is that the firms need to be different, but with compatible goals. However, he nuances the fact that firms have to be different. He writes that there is a contrast between the idea of compatibility and the one that the greater the similarity, the lower the likelihood of conflict. A good illustration that having a common goal is one of the most important aspects of alliances is when competitors get together to develop a new technology. There are numerous examples for this, here are just two: Sony, Matsushita, and Hitachi trying to establish a standard format for VCR compatible with HDTV then competing for market share; and Matsushita's support for Philips' DCC. However in this case the alliance is not made to last, so other criteria that we have seen before are of less importance. Finally, Nevaer and Deck (1990) say that the evaluation process of an alliance should not be based only on financial performance, but on "overall competitive dynamics". Firms need to look at their long term goals, to see if their strategies coincide.

So the study of strategic fit gives points that may be easier to measure. But concretely, how should a firm proceed when it is looking for a partner that has all the required qualities?

### 2.2.3. A process to select a partner

To answer this question, the ideas showed by Schmitz in her thesis about alliances (1994), and the ones of Nevaer and Deck (1990) will be used.

Schmitz talks about a two step approach. In the first step Schmitz remarks that a firm should create the criteria that need to be met by potential partners. These criteria can be of all types, and should take into account the idea of strategic and cultural fit which were developed earlier. Financial and other aspects are also important, but firms rarely tend to forget those. With all these criteria, the company creates a "threshold level", and ends up with a "pool of potential strategic partners". The second step then is to get to know these companies better, and select the best partner within this pool.

Nevaer and Deck's approach (1990) is globally the same, but they give more detail concerning the creation of the criteria. The process they show has five different steps:

1. Stating the firm's strategy.

To do so, the firm needs to look both at the environment and at its own capabilities and goals.

2. Developing an acquisition benchmark

This step is in fact the one where the criteria for selection are decided. To help in developing them , the firm can take different steps: identify its future goals, establish clear objectives for the future, define an upper limit concerning the scale and size of the partnership, determine the risk level that it is ready to take, decide which products it wants to favour, involve key executives, eliminate the industry segments in which it does not wish to participate, clearly define its strengths and weaknesses concerning activity, technology and skills, and try to de-emphasize the importance of profitability measures. Having done all this, it will know what to look for in a partner, that will be complementary as well from the strategic as from the cultural point of view.

3. Eliminating undesirable business sectors
4. Selecting promising business sectors

These two points seem to be just another assessment of the market conditions, but it may be useful to do this study again at this point, now that the firm has a clear image of what it is capable of and of its goals.

5. Selecting potential candidates

Now that all the conditions and criteria are set, the firm can start selecting potential partners, and we come back to Schmitz' "pool", in which the firm will at the end choose the best partner.

So what is important here is the creation of the criteria. To do this well, a firm must know itself perfectly, and identify its goals. Then it must take into account all the points of strategic and cultural fit, in order to maximize its chances to end up with a long term alliance.

**Hypothesis 2**: *When looking for a partner, a firm will select potential candidates on both cultural and strategic fit. Some important points are the size, strength, and strategy of the firms. Two partners must have complementarity rather than similarity, so that together they can achieve results which each could not have reached on its own.*

## 2.3. A closer look at the conditions in the telecommunications sector

Now that the theory concerning the need for alliances and the choice of partners in general has been reviewed, this part will be more focused on the telecommunications sector. First, overview of the current state of international telecommunications will be made. What are the trends and possibilities for firms that want to be present on a global scale? One very specific aspect that plays a key role and has an impact on the creation of alliances in telecommunications is the current state of the market and competition, which are closely linked to regulation. What is allowed, what is not? What are the differences between Europe and the United States? What do the various governments want to promote? Then, a next part will focus on the points that have been showed as important in the choice of a partner, and how these criteria can fit in the global conditions. However, some of these point will be hard to discuss in theory, and will be looked are more closely in the study of examples in the next part of this thesis.

### 2.3.1. The international market in telecommunications

This part will be an overview of what already exists concerning international telecommunications, and what possibilities are opening up for operators that want to expand globally. The data for this part are taken from the Organisation for Economic Co-operation and Development (OECD) working papers mostly: vol. III no. 70 "International Telecommunications: A Review of Issues and Development" (1995), and vol. III no.79

"The Changing Role of Telecommunications in the Economy: Globalization and its Impact on National Telecommunication Policy" (1995). Another important source will be various articles taken from The Race to European Eminence (1994), edited by Erik Bohlin and Ove Granstrand.

2.3.1.1 The global market, and customer demand

Until a few years ago, the market structure of the telecommunications industry was based on monopoly provision of infrastructure and services. This is because it was treated as an "infant industry", that needed to grow. Also, the idea of universal service was thought to be better served in a monopoly situation. Therefore, in almost all countries there were (and often there still are) regulatory restrictions that protected the incumbent operator. As a consequence of this, according to the OECD report (1995), user's benefits and requirements, lower prices that would have been the result of more open markets, benefits of new technological developments, have not been given priority. The OECD report (1995) argues that the universal service justification for monopoly is not valid, as studies have shown that competition does not have an adverse effect on its provision, and some regulatory tools exist to ensure it.

But conditions are gradually changing, and in most developed countries decisions have been taken to end the monopoly situation, and to allow competition in all areas of telecommunications in a few years from now. This is certainly partly a result of globalization, which affects telecommunications as well as any other sector in the economy. Indeed, in the past, international telecommunications was mostly made through agreements between national operators. The focal points of both PTOs and government policy was the domestic market. This situation turned out to be a contradiction when in the 1970s and 1980s the economy of the OECD countries globalized. As a consequence of this, globalized firms asked for international telecommunications services, and there was an incompatibility between the demand, the supply, and the regulatory structures. Ola Johansson (1994) writes that there has been a shift from national to international competition. Still each country has its own laws for competition, and its own standardized telecommunications network. This shows that telecommunications is not yet a totally international business but more a sector where there is "multi-domestic competition" (Porter). This means that these is a intermediate or complementary structure which is characterized by some foreign presence in countries where competition is still confined to the boundaries of the respective countries. Foreign companies can or will soon be able to enter the market in most developed countries, but there are still restrictions. A company will have to adapt to the regulations of each country in order to enter that market.

Another result of globalization, as McCarty (1994) points out, is the rapid changes and that are taking place in the "telecommunications landscape", together with great uncertainty concerning the future. This is due to various factors, which include new market conditions, business developments, technological innovations, the interplay of national and European Community policy in Europe, and the promise of new important regulatory changes.

Having to face all of these factors, changes and uncertainties, PTOs need to change their strategies. The globalization of large firms leads to a changing environment in the domestic market. PTOs have to face a decreasing profit margin, and still regulation prohibits them to enter certain business areas. Other incentives for PTOs to try to globalize are that it is a way to prepare for the possible entry of competitors in their home markets, and that it might help them to benefit from economies of scale. Barbet and Benzoni (1994) also argue that economies of scale cannot be fully exploited by telecommunications firms if they remain within their national markets, and they expect that the firms who can survive and become larger will be able to exploit them more. This will lead to a decrease in price, which will be an effect of both efficiency and competition. There will be a move from natural national monopolies to new natural oligopolistic competition with more firms on larger markets, and each will be able to exploit economies of scale better.

The OECD reports (1995) state that globalization has changed the importance of nationality in different ways: first, the nationality of the PTO is no longer important to the customer, and similarly the nationality of the customer is not important to the PTO. This leads to a situation where PTOs are at the same time customers and competitors with each other, and increasingly in contradiction with each other. So we see, as David Allen (1994) notes, that currently there are two major requirements in the telecommunications sector, which are in tension with each other. First, there is a need for a universal infrastructure, which can interoperate seamlessly, and to reach this requires collaboration between firms. Second, there is a need for fair tariff structures, and this will be achieved through competition, which will lower the rates.

So it is clear that the market structure and evolution demand for changes in the telecommunications sector, but to reach an adequate solution there is need both for competition and collaboration. But it is also important to take into account the customer demand, and what they expect from telecommunications operators in these new market conditions.

According to McCarty (1994), the demands of large users often place them at odds with national PTOs. Large businesses tend to rapidly adopt technological innovations when they believe that it will give them a strategic advantage, and their demands might turn out to outpace PTOs' supply abilities. This is even more the case on the international scale: users want the same technology available in the various countries they are in, good quality everywhere, and low prices. With time, they may increasingly look for lower-cost private and competitive alternatives to PTOs.

The OECD reports (1995) make the same observation. The customers increasingly ask for customized solutions, mobility, flexibility, and efficient service at a cost-oriented price. Standardized services are not always good enough for large users, they need their own adapted solutions. There also is an interesting trend towards merging of voice, data and video, even for residential users. This all leads to a demand for outsourcing. Single firms cannot provide everything large customers are looking for by themselves, they need to cooperate. A few years ago this was not seen as a problem, as PTOs simply did not respond to these demands as long as there was no competition. Now that competition is arriving, PTOs have to satisfy the demands of users. One feature that attracts large users is one stop billing. If they can find an operator that will satisfy all their needs and offers all the services they want, they will find it easier to ask it to handle all their telecommunications needs, so there is a lot at stake for PTOs.

Edward Roche (1994) analyzed the situation in the following way. He sees that there are new pressures on telecommunications functions. Large multinational firms have multiple locations where information needs to go, and there are only a few data centers to handle this. Therefore things are getting harder for telecommunications firms. More data and processing will be centralized, so that it is possible to reach economies of scale, whereas more access and end-users will be decentralized. So with this situation of more processing and storage centralized and end-used access decentralized, it is up to telecommunications to bridge the gap.

The changing international environment has increased the opportunities for foreign investment. This is true as well in OECD member countries, where it is linked to liberalization of the telecommunications sector, as in developing countries where there is a need for foreign capital and additional infrastructure.

Another aspect that is bringing changes in the telecommunications sector is technological innovation. The possibilities are growing, with new transmission channels, and networks developing beyond national boundaries. New technical requirements will lead to more market differentiation. New technological developments that enable international services pointed out by the OECD report are, among others: mobile, VSAT, and packet switched networks. These changes reinforce the pressure for regulatory change.

2.3.1.2. Possibilities for internationalization

As a consequence of all these conditions, there are a lot of investment opportunities for telecommunications operators, but they vary by country and by market. In Europe for example according to McCarty there are only four countries that have markets large enough to make them interesting to foreign suppliers. These countries are Germany, France, Italy, and the United-Kingdom.

Given all these market changes and conditions, Barbet and Benzoni (1994) conclude that it is likely that, at least in Europe, there will be a move towards concentration and alliances. This will further lead to a limited number of big operators in competition. David Allen (1994) sees the same kind of changes, but precises it a little bit more, giving three possible scenarios, each represented by a different operator. The main question is how can the resources be divided and coordinated at the same time, and how can there be a balance between all the parts and the whole. BT and MCI are a good example of this idea. They lead a joint effort, but at the same time divide the world between them. MCI handles the American continent, while BT takes in charge the rest of the world. We can find here an idea of one of the first modern economists, Adam Smith, who said that the solution is to divide the parts but coordinate the whole.

The three visions that Allen sees are represented by BT, MCI, and Deutsche Telekom (DT), and they have somewhat different outcomes.

BT sees a few companies emerging to dominate the global industry in the future, and eventually just one. There will be classic competition, that will determine the relations between survivors. Still some coordination will be needed at the physical transport level, where networks interconnect.

MCI sees a few consortia competing with each other as a consequence of competition. There will be groups of companies, and within these groups there will be a combination of collaboration and competition.

DT has an even different view. All principal actors will end up in a single group, and there will be a mix of cooperation and competition inside the group.

The common point between the BT and DT visions is that they both see a single entity at the end. The difference lies in the relationships between the individual company and the group. The choice that Allen makes between the three visions will be discussed later, the next part will first show some different forms internationalization can take in the telecommunications sector.

Ola Johansson (1994) and Ove Granstrand (1994) both notice that joint ventures and alliances are the most common entry strategy in telecommunications. The distinction that Johansson (1994) makes between the two is that alliances sometimes include the swapping of shares, while joint ventures rather include the creation of a third and jointly owned firm. Joint ventures are usually used to obtain licenses in specific countries or situations, while alliances are used to enlarge the network coverage of telecommunications operators. Granstrand (1994) makes the difference between joint ventures or alliances, and other modes of entry. He notices that acquisition is rarely used to enter core telephony services, although it is more common for foreign entry into data services. Greenfield, which is entry from nothing, building of own capacities, is even more rare. The choice of cross-border cooperative mode of internationalization is motivated by the need to save money and time, and the need to overcome barriers to foreign entry, whether these barriers are based on regulation or not.

According to the OECD report (1995), there are different possibilities for internationalization for telecommunications firms. The first one is offering new service options. The second one is foreign direct investment (FDI), and the third one is entering alliances or creating joint ventures. Both the OECD (1995) and Barbet and Benzoni (1994) find that FDI is linked to market liberalization, and the emergence of foreign ownership issues. However, there often are limitations to the possibilities. These limitations can be due to general rules in a country, to limitations on the kinds of services that can be offered by foreign companies, or to the limitations on the percentage of shares that can be owned by a foreign company. Barbet and Benzoni (1994) also add the idea of reciprocity to that of FDI, and link FDI to privatization. Indeed, in Europe, many telephone operators are being at least partly privatized, which often leads to the entry of foreign capital. They argue that depending on the country, some will ask for reciprocity if they let foreign owners in. For instance, countries such as Greece, Portugal, or in eastern Europe, will not ask for reciprocity, but will keep the majority in the capital. On the other hand, in major developed countries, major FDI of European operators seems impossible without reciprocity. The authors argue that the BT/MCI deal was accepted because of the private status of BT, but say that it would certainly not have been possible without reciprocity for operators such as FT or DT. However, we know since then that FT and DT have reached an agreement to both purchase 10% of Sprint, and that it has been accepted, but we will look at the details and conditions of this later on.

Given this situation, the next step is to look at the possibilities that the telecommunications firms have, and what actions they can take.

In general, it is now clear that internationalization has become a prerequisite for success for an operator that wants to remain an important player in the sector and survive the increasing level of competition. Therefore, all major PTOs are increasingly dynamic and outward-looking, regardless of their status, that is to say government owned, private, or a mix of both. FDI is not a new concept, but it has changed, as it has taken a new strategic importance: foreign ownership can mean extra revenue, or a first presence before further development in a country.

But FDI is not the only consequence. As Ioannidis (1994) shows it, all the recent changes in the market have made national borders transparent, and forced national operators to interact with each other. Other firms have become both competitors and potential partners, and each operator is trying to find the best balance, to use collaboration as a competitive weapon. This is why international expansion of operators is mostly achieved through international strategic alliances. Usually these alliances focus on a specific region, and nowadays the most strategic point is the interface between the United States and Europe. In short, according to Ioannidis (1994), the changes in the telecommunications sector lead to the need to renegotiate two contracts: one between national environments and the telephone operators, and another one internationally between telephone operators.

Historically competition appeared first for value-added network services. But since then it has also taken place between telecommunications operators, in the various following forms, as showed by the OECD report (1995): nowadays there is competition for value-added networks and managed data services, there are new facility entrants providing international services, there is competition between different kinds of infrastructures (e.g. satellite versus fiber-optic), there is competition by PTOs for transit traffic and to provide leased lines, there is competition by resellers, and there are new integrated international services in which voice is one component.

If this kind of competition exists in some countries, mostly it is still asymmetric. There is no coherent international framework, and no international pressure on domestic regulations to create a more consistent international market place, except on the regional scale within the European Union countries.

So the question is, with all these changes and conditions, where are the PTOs heading? According to the OECD report (1995), the following actions are being taken. First, PTOs tend to offer more services than in the past. Then they use the existing network facilities as a basis for expansion in international markets. But to have a global reach, PTOs need both competition and cooperation, and so far no PTO has become truly global in terms of geographic coverage, despite the use of outsourcing. BT has an important coverage, but mostly concentrated on industrialized countries and major cities, which does not make it really global yet. The question that arises is will these alliances between PTOs lead to the formation of market monopolies, or oligopolies, at the regional level? Barbet and Benzoni (1994) certainly see something of that kind happening. They say that some countries, in search for greater size will concentrate their national supply. In countries with functional and/or geographical monopolies, there is a strong incentive to concentrate supply, and the next step will probably be international alliances.

To make evolutions possible in the telecommunications sector, some changes still have to be made from the regulatory point of view. The next part is a look at some general reflections on these points, to see what is possible nowadays and what needs to be changed in order to have the best possible evolution in the future.

### 2.3.2. The role of regulation

#### 2.3.2.1. The current situation

The challenge that regulation is facing these days, as McCarty (1994) states it, is to manage to make a fair and efficient transition to competition. However, this is not an easy task, because interests of different parties may be conflicting. For instance, the interests of potential competitors to PTOs and of large users may be in conflict with the objective of regulators, who want to protect national PTOs. Also, the desire of PTOs to respond to competition may be in conflict with the objective of universal service.

Still, according to McCarty (1994), not all countries will react to competition by trying to protect the national operator. Some may see an advantage in liberalizing their home market more quickly. This vision is likely to be related to a country's historical role in foreign trade, and therefore the experience that it has in international business.

Dimitrios Ioannidis (1994) shows that administrations and governments, depending on the conditions they are facing, can have different attitudes towards the national telecommunications operators. The three attitudes he sees are promotive, supportive and obstructive. Governments can still take actions to directly or indirectly limit entry in their home market. This can be done through pricing, cost structures, stimulation or restriction of output, affecting standards, distributing rights to infrastructure or space on and in which infrastructure can be built. Ioannidis (1994) distinguishes internal and external conditions that can have an effect on the national PTO. Internal conditions include the relationship between the firm, the administration and the government, or the possible existence of several firms providing similar services. If a governments wants to promote national firms, it might be an easier task if there is only one player. The external conditions are the degree to which the national administration has committed itself internationally to allow competition on its home market, and also the position of the country internationally.

As Barbet and Benzoni (1994) show it, the government also has the option to privatize the national operator if it is still state owned. Privatization is a political decision, and it can be made for various reasons. One would be to reduce the public deficit, and this way raise money for construction and modernization in the country. This mostly happens in countries in Latin America, and is not very likely in Europe. Another reason to privatize a national PTO is to improve its opportunity to act as a real firm in a free market, as happened in the United Kingdom. However, McCarty (1994) outlines that there are other aspects to privatization and competition. They often lead to a need to restructure the PTOs, and this can mean the loss of numerous jobs, as has been the case for AT&T. Therefore, in countries such as France, labor unions fight privatization and liberalization.

But national governments are not the only ones to take decisions. There are other regional institutions, like the European Commission, which impose various changes to their member countries. As McCarty (1994) points out, sometimes there is a conflict between the EC and the national regulators, as they do not always have the same goals.

So what needs to be done in order to get the best results both on the national and international levels?

#### 2.3.2.2. A necessary evolution

David Allen (1994) suggests that to be able to have continuing innovation for the network there is a need for a repeated cycle of innovation and standardization. However, this is not easy to achieve. Innovations, which need research, are probably most favoured in a competitive environment, but standardization can only be real if there is a consensus between different firms and countries, so it requires the opposite. So the challenge is to find a point somewhere between competition and consensus.

So to favor innovation and fair prices there is a need for a competitive situation, but the specificities of the telecommunications sector ask for efficient standardization. In addition, there is the universal service goal, which is not favoured by competition. This is why there is a need for efficient regulation, for instance to ensure that new entrants have certain obligations.

Following is a list of what the OECD report (1995) sees as needing to be covered by regulation, to make this possible and prevent dominant carriers from using their dominant position in an anticompetitive way. The points are the following: access and use of leased lines, non-discriminatory access to infrastructure and basic services, interconnection, access to relevant information, and cost-oriented tariffs. All decisions should be made according to the principle of equality.

### 2.3.3. Specific points for alliances

#### 2.3.3.1. Reasons and options

The changing market, which has led to the need to meet the requirements of multinational corporate customers for telecommunications firms, brings them new opportunities. They need to find the best way to take advantage of those. As presented by the OECD reports (1995), carriers are increasingly forced to provide end-to-end international network management services. To do so, they are lead to undertake strategic investments in foreign markets, and set up strategic ventures with other telecommunications carriers, as well as investments in areas which are outside of their traditional activities. These areas include information technology and media. However, up until now there are still restrictions. Monopoly market structures still exist, there are some reserved services and foreign investment restrictions. There are also limitations regarding the integration of telecommunications and broadcasting activities.

One specificity of the telecommunications business is that the provision of services depends on infrastructure which is not mobile across borders. Therefore, there is a need for FDI, or for access to existing infrastructure on a fair, non discriminatory basis. Up until now, if operators want to offer end-to-end services, they may have to own and operate the facilities from the originating customer end to the terminating customer in another country. Therefore, there is a strong notion of interdependence that has three aspects according to the OECD (1995). First, when making strategic decisions, each player has to take into account all the others' likely strategies. Second, today's conditions lead to "coalition dynamics". This term designates the ways in which players align themselves for and against specific issues, that can influence the players' strategies, and in turn the final outcomes. Finally, players are involved in various sectors (business, regulatory-legal, political) at the same time. This means that an outcome in one of these sectors can have an influence on the players' strategies and on their moves in other sectors.

Ioannidis (1994) sees three different strategic options for national operators, in conditions where some kind of integration is necessary. The framework he looks at is Europe. The first option is called integration by domination by the author. In this case one single firm will dominate on the European market, and this will mean the death of all other, which would die either because of competition or be swallowed after entering an alliance. If this is possible, it will be in the long run. One of the operators that could be seen as trying to take this way is BT. The second option is integration by federation, where there would be a transnational structure with some kind of division of labour between operators, but each will still have some autonomy. This view also has its problems, like deciding who will own the different customers, or how the profits will be divided. However this could be reached by a more continuous process, and some current alliances such as Unisource or the FT/DT alliance could lead to this kind of outcome. Finally, the last option is integration by amalgamation, which could be the outcome of the second one in the long run, that is to say a new transnational structure resulting from the mixture and disintegration of the original national companies.

What can be noticed is that in all of these possible outcomes alliances are used at some point, so they really seem to be a key to the future of telecommunications. Indeed, Barbet and Benzoni (1994) point out that alliances can be easier to set up than other forms of internationalization, at least in today's asymmetric conditions. This is because in alliances there is no need for the partners to have the same legal status. What is more important is similarity in size and efficiency, as was shown in the previous part about alliances in general. This shows that although the telecommunications sector is very specific, some generic strategy theories are still true. For instance, FT and DT are comparable in size and status, even if DT is going to be privatized sooner. But this foreseeable change does not have an impact on the alliance.

The OECD report (1995), when looking at what firms want from alliances, also comes to conclusions similar to the ones from the previous parts. For operators, cooperative ventures are a way to reduce the risk of expanding in foreign markets, to reduce capital investment, and to gain improved knowledge of international markets. What's more, even the largest carriers do not have sufficient resources to own and operate their own resources on a truly global scale. Therefore, joint ventures "enable participants to give the impression of being truly global, despite owning no physical assets outside their own borders". Looking for cooperation can also be a way to "neutralize" potential international competitors. Reaching agreements on who will handle which markets and other points can be very important for the future and to control competition.

According to Barbet and Benzoni (1994), the important points to look at when looking for a good partner are efficiency, which becomes critical when competition arrives, and financial performance. Large countries like the United Kingdom usually have better results. Ioannidis (1994) shows that what partners also frequently provide to each other in alliances is geographical market access. Here we find the idea that partners must complement each other for an alliance to be successful. Partners must be compatible, but also bring each other something new. And an existing customer base is an important corporate asset. Also, there is often a political or regulatory necessity to have a domestic partner when seeking to penetrate new national markets.

When trying to forecast what future alliances and powers will be, McCarty (1994) argues that looking at the different national conditions can allow one to guess which PTO will be in the best position to pursue foreign investment opportunities in the near future. For instance, he finds that DT is unlikely to make foreign expansion one of its priorities, given its domestic investment needs. On the other hand, BT has much more incentive to do so because of its saturated home market, and FT seems well positioned as well. While this analysis is certainly true, we have seen DT since then entering international alliances as well as the other two, meaning that there are other parameters that are important in a company's strategic choices, other than just the national conditions.

2.3.3.2. Conditions for success

To finish this part, what two authors, Edward Roche and Ove Granstrand, see as being the conditions for success internationally in the telecommunications sector will be reviewed.

Roche (1994) argues that there are five important aspects that winners will need. First, the ability to offer services in most countries, including emerging markets in developing countries to which an increasing amount of manufacturing is going. Again, we see the need for true global presence. Second, sophisticated billing and payment services which can handle complex currency problems and customized reporting consistent throughout the world. This to be able to treat the different offices and locations of a multinational firm as a single customer. Third, the ability to cost-justify outsourcing projects more than only in terms on reducing cost, but also as a way to achieve strategic business objectives. In other words, cost reduction is not the only priority, longer term strategic objectives are equally important, and the firm needs to be aware of this. Fourth, the ability to provide customers with rapid configuration and capabilities changes upon demand. And finally, the ability to work closely with data processing establishments, including third party vendors supplying outsourced services and consulting. This is important because the demand is getting more and more complex. If the operator is not able to answer it all by itself, it should be able to work in harmony with others in order to provide the best possible service to the customer.

As a conclusion to this part, it seems appropriate to use Ove Granstrand's table "Strategic requirements for a candidate in the international telecommunications race" (1994). This table summarizes the different aspects that need to be taken into account, as well in telecommunications as in other businesses, and they are the same points that a firm will look for when in search for a partner, at least from the economic and strategic point of view. Then, as we have seen before, the cultural aspect must also be taken into account. But if the strategic requirements are not met, there is no point in forming an alliance.

Table 1. Strategic requirements for a candidate in the international telecommunications race.

**Management**
- Strong management base and learning ability in international business
- Strategic commitment by corporate owners and management
- Internationally business-oriented corporate culture
- Entrepreneurial and commercial management skills
- Skills in managing multi-cultural external relations (alliances etc.)

**Technology**
- Innovativeness
- Strong technology base with in-house R&D, technology acquisition and learning skills
- Intellectual property rights

**Marketing/purchasing**
- Good learning position in precursory markets
- Key positions in expanding markets
- Productive, long-term relations with internationalized and innovative customers
- Productive, long-term relations with internationalized and innovative suppliers

**Financing**
- Domestic financial strength
- International financing ability

**Production**
- Ownership and/or control of critical network parts

**Politics**
- Culturally and politically well positioned
- Home market politically and regulatively conducive to and apt for learning and self-financing
- Diplomatic skill in alliance formation
- Lobbying effectiveness (domestic and foreign political skills)

**Miscellaneous**
- Geographically well positioned (e.g. close to NICs or medium and less developed countries)

This short study of the telecommunications sector and its evolution enables us to find two last hypotheses concerning the creation of alliances, which are more specific to the telecommunications industry. It has been showed that international alliances seem to be a solution that operators will have to choose if they want to survive in the competitive market that is about to emerge. The choice of the right partner (or more often even several partners), with whom a firm will be able to cooperate efficiently and reach a global scale is then the most important question. A number of national operators, which have not yet experienced competition in this sector, will want not only to expand, but also to protect their home market against competitors as much as possible. The choice of the partners and the terms of the agreements play an important role in this. This leads to the following hypotheses.

Hypothesis 3: *Telecommunications operators, when looking for partners for international alliances, will not only look for the best ones according to the criteria found in the previous parts, but will also try to reach agreements that will allow them to protect their home markets and stay dominant in those markets.*

Hypothesis 4: *The goal of international alliances in telecommunications is to be able to offer global services, so that they can satisfy the needs of multinational companies, which are very large users, by offering them "one stop shopping". However, up to now no company or alliance is able to offer truly global services.*

# Chapter 3

# METHODS

In this chapter this study's working plan will be described, to explain how the theory from the previous part will be used, and how the hypotheses that resulted of the literature review will be tested.

## 3.1. The working plan

The first hypothesis is quite general, and it will be feasible to see if it is verified in the telecommunications sector by looking at an important number of alliances, and see if they allow the partners to get new advantages, mostly access to new markets. Therefore to verify this hypothesis a list of recent alliances will be used and an attempt will be made to see how the participating partners benefited.

Concerning the second hypothesis, some of the criteria that have been found for the choice of partners are also easy to verify, like firm size and strength. For these a list of various alliances will also be used, to see what the situation is in the telecommunications sector.

However, other points of the second hypothesis, like strategy or culture, would be to hard to check on a great number of alliances. The same is true for the two remaining hypotheses. This is why in these cases two examples will mostly be used, which are some of the most important international alliances up to now. These examples are BT and MCI's Concert, and Sprint, FT and DT's Global One. A more in depth analysis of those will be done, and they will be used as a case study to either verify or contradict the hypotheses.

So the method used here will be case study. The advantages of this are that case studies allow a more in depth analysis of a given example, so more answers can be provided concerning this particular case. However, the results should not be considered as general ones. They apply to this case, but might not be true in other cases. So the goal of case studies is more to lead firms in similar positions to use the examples that are provided as a basis, so that they can ask themselves the right questions and learn from the others' experiences.

Because the Global One and Concert alliance are going to be used all through the next chapter, before the hypotheses are looked at one after the other, both alliances will shortly be presented, in order to explain the terms of the deals between the various operators and what services they are offering. Then in each part the relevant points will be examined in more detail.

## 3.2. The alliances used as case study

### 3.2.1. BT and MCI's Concert

On June 2, 1993 BT and MCI first announced their plans to create a joint venture. This joint venture, later called Concert, is supposed to offer global communications. In addition to this, BT intended to invest $4.3 billion for a 20% stake in MCI, and this way to become the largest single shareholder. Before this transaction, BT and MCI were respectively the fourth and fifth largest telecommunications companies in terms of traffic. The two companies have a very different past:

BT used to be a state owned monopolistic operator. It was privatized in 1984 and is now a publicly quoted company. It supplies telephone lines to homes and businesses, local, trunk and international (to and from the United Kingdom) telephone calls, and other telecommunications services and equipment.

On the other hand, MCI has been created as a challenger to AT&T's dominance in the US long distance sector. It provides a broad range of United States and international voice and data communications services including long distance telephone, record communications and electronic mail services to and from the United States. MCI is the second largest long distance operator in the US after AT&T.

After the announcement of the deal between BT and MCI, the companies needed agreement from the UK's Office of Fair Trading, the EC, the US department of Justice, and the FCC. By July 1994, all regulatory and legislative body approvals in Europe and the United States were received, and Concert was officially launched. The first global customer service centers to be operational were located in London, Paris, Sydney, Tokyo, and Cary, North Carolina (PR Newswire, 1996).

Since then, Concert has expanded, offering more services in more countries, and has been quite successful. Industry analysts say that it had a one year lead over its competitors in providing global services and solutions to multinational companies. Concert Communications Services has sold more than $1.5 billion in contract revenue between its creation and November 1996, and had announced it would break even one year ahead of original forecasts(MCI homepage, 1996). Based on these results, BT and MCI have decided to strengthen their cooperation, and they have announced at the beginning of November 1996 that they will merge their companies. If accepted, this merger will be worth $20 billion and will create the world's second largest telecommunications group, based on market capitalization, behind Japan's NTT Corp.

Now that the general lines of Concert have been drawn, the next part will focus on how it is (or was until November 1996) operating, and see who is doing what.

Concert has been created in order to address the emerging market for value-added or enhanced services to large multinational corporations, extended enterprises, major national and other intensive users of telecommunications services provided over international intelligent networks. This market covers a wide range of existing global trans-border services, including virtual network services, high speed data services and outsourced global telecommunications solutions specially designed for individual customer requirements. However, Concert has initially focused its development efforts on multinationals, with specific emphasis on the biggest 500 (European Commission, 1994).

In this market, Concert planned to offer 6 categories of services, originally based on existing products of the parent companies. The six categories are the following: data services, value-added applications services (messaging and video conferencing), global calling card services, intelligent network services, integrated VSAT network services, and global outsourcing, which means taking up the responsibility and ownership of customers' global networks (European Commission, 1994).

Given the needs of the targeted customers, the services that Concert offers need to be global. This means that they must meet a particular set of requirements, which are the following: provide ubiquitous service across multiple borders; consistent service levels, delivery schedules availability; make time zones, currencies and languages irrelevant; overcome inadequacies of local infrastructures; make customers assume service is local when it is actually being provided from the other side of the world (European Commission, 1994).

Up to now, large customers have not seen their requirements satisfied by the mostly monopolistic and domestic structure of the telecommunications market. Operators from different countries were merely cooperating to link their respective networks. This lead to customers being billed separately in different currencies. In order to change this situation and have large international customers satisfied, products should meet some requirements: provide a single point of contact accountable for assuring service levels; offer seamless, uniform, flexible features across geography; have end-to-end provisioning, installation, fault management and service support; offer reliable service; provide customized billing, management information, reporting with language and currency flexibility; have speed and ease of implementation; offer products that meet existing needs (European Commission, 1994).

Concert has been created to be able to offer all of this. To make this possible, BT and MCI have given it a specific structure, purpose and activities range. 75.1% of Concert was owned by BT, and the remaining 24.9% by MCI. The board consisted of 8 directors, 6 of which were nominated by BT, and the two other by MCI.

As said before, Concert was created for the provision of enhanced and value-added telecommunications to big companies, and of outsourcing. This in fact means any international telecommunications service that can be provided in such conditions according to regulations.

To achieve this, Concert's activities have been split into two groups: planning and management activities on the one hand, and support and marketing on the other hand.

The first group of activities includes the planning and development of global products, the establishment of a global platform over which the global products will be provided, and the provision of telecommunications services management to customers. To achieve this, Concert benefits of a budget for R&D. However, the actual R&D activities are performed by BT and MCI, under contract with Concert (European Commission, 1994).

Concert's revenues are generated from the sale of its services to the parent companies, which are the exclusive distributors of the Concert products. So Concert has no direct contact with customers, except for what concerns global outsourcing services. However, Concert has a certain number of responsibilities towards the distributors: it decides who is going to be the main distributor for each product in each contract; it provides some technical, commercial, and marketing support to the distributors; it provides billing services to the distributors; it carries out global market analysis and an annual products development plan (European Commission, 1994).

Beyond these responsibilities, the contract specifies a number of non-compete provisions, agreements concerning licenses that will be granted to or by Concert, provisions regarding the distribution of the products, especially concerning the territories that each parent operates in. MCI is in charge of the whole American continent (North, Central and South), and BT of "the rest of the world". There is also a restriction on BT's ability to increase its shareholding in MCI, but as we have seen this has changed because both parties have agreed on a merger with BT planning to acquire MCI for $20 billion.

### 3.2.2. Sprint, France Telecom and Deutsche Telekom's Global One

Global One is an international venture between France Telecom (FT), Deutsche Telekom (DT), and Sprint. It has been notified to the European Commission on June 29, 1995. The agreements between the three partners have been signed on March 5, 1996. On July 17, 1996, the Commission issued its decision to allow this to go through. The agreements consist of two main transactions. First, FT and DT each acquired 10% equity stake in Sprint, and obtained proportionate board representation. Second, the three companies have created a joint venture, Global One, for the provision of non-reserved global telecommunications services and other telecommunications services to corporate users, carriers and consumers. The deal is a little more complex than the one between BT and MCI, since it involves another party, Atlas, which is a joint venture between FT and DT. Atlas has been created to replace Eunetcom, a former FT and DT point venture, and its purpose is approximately the same as Global One's, only on the European level. More precisely, Atlas plans to address two specific markets, the one for customized packages of corporate telecommunications services, and the one for packet-switched data communications services. Atlas has three distinct entities, one for operations in France, one for operations in Germany, and one for the rest of Europe. In a similar way, Global One is separated in different entities. The first provides services worldwide, except in Europe and the United States, while the other provides services in Europe, except France and Germany. The three parent companies will be the distributors of Global One services in their home markets (European Commission, 1996a and b).

DT and FT are the public telecommunications operators in Germany and France. Both supply telephone exchange lines to homes and businesses; local, trunk and international communications to and from their respective home countries. Sprint is a holding company in the United States. The Sprint group of companies is a diversified telecommunications group providing global voice, data and video-conferencing services and related products. Sprint's main subsidiaries provide local (United States) exchange, wireless, as well as domestic and international long-distance telecommunications services. Sprint is the world's 11th largest telecommunications carrier in terms of revenues (European Commission, 1996a and b).

The aim of Global One is to address various markets. The first one is the market for non reserved corporate telecommunications services. It includes corporate voice services (global virtual private network, international toll-free,...), data communications services, dedicated transmission for voice and data services, custom network solutions, and platform enhanced services. The second market is the one for traveler services, including calling card services, and specialized voice or data services. Finally, Global One addresses the market for carrier services, which means leasing transmission capacity and providing related services to third-party telecommunications traffic carriers and service providers. These services are meant to be global, so Global One wants to offer large telecommunications users seamless end-to-end services anywhere in the world, and overcome the difficulties inherent to the current market structure split along national borders.

According to the market shares of the parent companies in 1993, Global One would have had a share of 12.2% in the global market for customized packages of corporate telecommunications services at the moment of its creation (European Commission, 1996b).

According to the original agreements that the parties submitted to the European Commission, Global One will set out the different parties' essential commitments and business objectives. Global One consists of mainly two groups, one for the Rest Of Europe (ROE) and one for the Rest Of the World (ROW), as said earlier. Each consists of a sales entity, a clearing-house entity, and a holding entity. Atlas will nominate four board members, and Sprint two for the ROE entity, and each will nominate two members for the ROW entity. Each parent will be the exclusive distributor of Global One services in its domestic market. A Global Venture Board has been established to set global policies and monitor compliance of the operating groups with their business plans (European Commission, 1996b).

Initially, the business of Global One is provision of the services cited above. Its entities might however also offer telecommunications equipment and invest in national operations. To market these services, Global One is responsible for the planning and management functions of operations, as well as marketing and customer support, including the following: first, central coordination of product development and management to ensure seamless global services. Global One defines the functionality, technical standards, and service level requirements for its services. Second, implantation of a common global network and information systems platform rationalizing and integrating the international data, voice and overlay networks of the partners which are currently separate. Third, integration ad development of information systems for coordinated billing and customer support. Finally, development of a sales presence in the ROE and ROW territories either directly or through distribution arrangements using a common "masterbrand". Also, regional sales offices will be established to provide technical and sales support (European Commission, 1996b).

The contract also specifies the relations between the different entities. The transactions between the Global One entities and FT, DT, Sprint and Atlas will be conducted on the most favourable terms and conditions that are offered to third parties. However, each Global One entity may purchase from a third party which, on otherwise comparable terms and conditions, offers lower prices, either once the parties have been given the opportunity to match such terms and conditions or if a customer so requires. Concerning anti-competition and distribution provisions, except in some specific cases, no party may distribute any international telecommunications services that are either provided by the Global One entities or substitutable for such services. Also, no party may invest in any entity that offers such services. Moreover, no party may offer national long-distance services in competition either with a national operation of Global One or a public telephone operator affiliated to Global One. The Commission has prohibited DT and FT from discriminating in favour of any entity created pursuant to the Global One agreements. Also, neither Atlas, Global One, DT, FT or Sprint is allowed to make a particular telecommunications operator's ability to use Global One international carrier services conditional upon use or distribution by that telecommunications operator of services provided by any of theses companies (European Commission, 1996b).

To justify the fact that the Commission allowed these transactions, it looked at four different points.

First, the technical and economic progress that will be a result of the creation of Global One. The Commission argues that the creation of Global One will lead to a combination of Atlas and Sprint's technology, and this will enable the new company to offer new services with global "connectivity" at lower cost and better than either Atlas or Sprint are capable of providing alone. Then, the seamlessness that will be a result of the alliance will substantially improve international services, which are up to now provided over different interconnected national networks. Global One's offering will increase choice in the relevant markets and offer businesses across the European Community state-of-the-art telecommunications services which their competitors overseas can already use.

The second point is the benefits to consumers. Global One makes it possible that consumers benefit from a considerably wider range of services that DT, FT and Sprint would not be capable of providing separately within the same period of time.

The third point is indispensability. The Commission finds that Global One is indispensable for the parents to successfully enter the relevant global and regional markets.

Finally, the Commission has looked at the elimination of competition, and has concluded that the creation of Global One does not eliminate competition in the relevant markets. Also, the provisions of the contract concerning the distribution of Global One services by DT and FT in their home countries ensure that the distribution of these services will not lead to market foreclosure or constitute a barrier to entry.

So the Commission concluded that the Global One transactions met all the necessary conditions to be accepted. Some specific conditions were set as well by the European Commission as by the US Department of Justice. The partners and the new venture will have to respect these conditionsfor a given time. This is partly linked to the fact that the French and German market are not totally liberalized yet, and until that happens these conditions will remain. However, these conditions will not be studied in detail here, the most important fact is that Global One has been allowed to operate in the way described above.

The alliances that have been described in this part will be used as evidence or examples in the next part, which will be the testing of the hypotheses. When possible, a larger sample of alliances will be used to verify or contradict the hypotheses. Where they need a deeper analysis of the alliances and their actions, a case study of Concert and Global One will be done and these two will be used as examples or evidence.

# Chapter 4

# TESTING THE HYPOTHESES

## 4.1. Hypothesis 1

Hypothesis 1: *Firms in the telecommunications sector enter alliances to enable them to get new competitive advantages in the face of the opening up of markets or more generally of globalization.*

The data used to test this hypothesis are taken from a working paper (Azoulay and Sarker, 1995), and date from the spring of 1996. However, they are recent enough to detect some major trends in the telecommunications sector. The research that has been done has lead to a list of the various alliances that the largest telecommunications operators are participating in, and shows some interesting results. In a somewhat simplified vision, the alliances seem to be divided into two majors types. Some of them are created with the goal of offering global services. This means having a presence in all regions of the world, or at least as many as possible. The second type is more concentrated on one market, usually one specific country, and one specific type of service, such as cellular or long distance to name just a few. Looking at the results of the research, it is noticeable that there is one type of operators that to this point have not entered alliances with global goals. These operators are the American RBOCs. This might be due to their specific status. Up to the Telecommunications Act of 1996, these companies were not allowed to enter the long distance telephony business in the United States, as they were local companies. This means that their infrastructure is different from the one of long distance operators, and it does not allow them to offer services on broad geographical markets using their infrastructure. This could explain why they are not trying to enter the "global market", at least not for the moment. The RBOCs do have international operations, but they are more concentrated on punctual projects and markets. All operators do in fact have these kinds of investments in individual countries. But all the American long distance and almost all other large national operators from other countries that have been looked at in this research also have at least one participation in an alliance that aims at offering global services. Because of these differences these two types of alliances will be looked at separately.

First, the international alliances limited to a specific country will be examined. The alliances within the list were grouped according to the country where their activity was set, and the type of services that are offered. The countries are divided between industrialized and industrializing countries. Within the industrialized countries are the United States, the EC member countries, New Zealand, Australia, and Japan. All the rest was considered as being industrializing countries. Mainly these are Eastern European, former Soviet Union countries, Russia, South American countries and South East Asia countries, these including China and India. The services were divided into the following groups. One group concerns mobile technology. Another is linked to cable television. A third group is all telecommunications services that use fixed technology (fixed telephony and data transmission, networks mainly). A last group contains all the "other" services, like installing cable, multimedia services, or helping to establish global ventures. Concerning the AT&T alliances that were listed, the ones that were only in manufacturing or equipment were not taken into account, as most of the operators are not manufacturers, so no comparison can be done. As said before, RBOCs and other operators were also considered separately, because they do not start from similar positions.

The results from this division show some interesting trends. They are shown in the following table.

Table 2. Division of alliances according to their service and the target countries

| | **mobile** | | **fixed** | | **CATV** | | **other** | |
|---|---|---|---|---|---|---|---|---|
| | indusd | devg | indusd | devg | indusd | devg | indusd | devg |
| **RBOCs** | 27 | 22 | 6 | 10 | 5 | 3 | 2 | 6 |
| **total: 81** | **49** | | **16** | | **8** | | **8** | |
| **other** | 8 | 15 | 22 | 48 | 5 | 0 | 16 | 11 |
| **total: 125** | **23** | | **70** | | **5** | | **27** | |
| **totals** | 35 | 37 | 28 | 58 | 10 | 3 | 18 | 17 |
| | **72** | | **86** | | **13** | | **35** | |

(indusd: industrialized countries; devg: developing countries)

Before discussing the results showed by this table, it should be noted that the joint ventures considered here are only the ones involving FDI, which means that it does not take into account all alliances that have been created. Still, these figures can show some trends in what markets firms are entering. It seems that out of the 81 total alliances counted that at least one RBOC is participating in, 49 involve mobile services, and only 16 fixed telephony services. Out of these 49 alliances involving mobile services, 22 are in industrializing countries, and 27 in industrialized countries. This difference is not big enough to be really significant. This shows that all RBOCs predominantly have chosen to internationalize by offering mobile services.

On the other hand, other operators seem to act differently. Out of the 125 alliances that were taken into account in this study, 70 involve fixed telephony or related telecommunications services. There also is some interest in mobile, with 23 alliances. It seems like those operators invest more in developing countries, with 48 of the 70 alliances involving fixed services in developing countries, and 15 of the 22 alliances involving mobile services. So it seems that these operators, if they have alliances with companies all over the world, develop more of them in developing or industrializing countries, where maybe there is a bigger need for the infrastructure and fixed services they can provide. Indeed, industrialized countries already have good coverage of their territory for what concerns fixed services, and usually the incumbent operator, sometimes operators, have sufficient capacities to upgrade their networks without foreign aid. Also, in many countries the national operator is still protected by regulation. This is less the case for mobile services. This together with the fact that mobile technology is barely at its beginning, with growing markets all over the world, can explain the differences in target countries for these services.

But the interesting point here concerning the hypothesis is that each type of company (RBOCs and other operators) is investing heavily abroad, and tries to enter new markets. Each has chosen the area where it can offer the best services most competitively. Various conditions seem to have made that these services are mobile services for the RBOCs, and mostly fixed ones, although it is less clear and they are present in most areas possible, for other national operators or American long distance operators. The large number of alliances show that most companies are expanding abroad, they look for good opportunities in growing markets all over the world.

In a next step the alliances whose goal is the provision of global services will be studied. The only RBOC that has entered such an alliance is AirTouch Communications, who is a partner in Globalstar, an alliance which will offer global mobile phone services through a satellite network.

However, things are very different among the other operators that have been listed in this research. All of them, except NTT is part of at least one alliance that offers global services. The number of these alliances is in fact quite limited, and a lot of them involve a great number of partners, like Globalstar, Worldpartners, Financial Networking Associations, or Infonet. So most of the telecommunications operators want to enter this global market, but it is so demanding in terms of assets and costs that a big number of partners is usually needed to make this possible. There are only two example of alliances between three or less companies that want to offer global services, and they are Global One and Concert. BT recently has showed that it intended to go even further and its global operations no longer are an alliance. It has announced that it will acquire MCI as the two companies have decided to merge all their operations.

As a conclusion concerning the first hypothesis, the list of alliances used here seems to show that all telecommunications are entering international alliances. Each is trying to develop its own competitive advantage by emphasizing the area of service where it is most efficient, and are trying to enter the markets where the demand for this kind of service exists. In most cases these alliances will be created with local partners, which helps to enter a market, and is often a regulatory condition for entry. Markets are opening gradually and the telecommunications operators of industrialized countries are trying to take advantage of this by entering these promising markets.

Another reaction of operators is to want to offer global services, as demand for those really exists, mostly among corporate customers. But none of them can do this on its own, and another type of alliances are being created to be able to meet this kind of demand. These alliances include several telecommunications operators from industrialized countries, who decide to unite their technologies and networks to be able to offer the best possible service. Two examples of these kinds of alliances, which are the ones that really address globalization, will be used to test the next hypotheses. They are Sprint, FT and DT's Global One, and BT and MCI's Concert.

4.2. <u>Hypothesis 2</u>

Hypothesis 2: *When looking for a partner, a firm will select potential candidates on both cultural and strategic fit. Some important points are firm size, strength, and strategy. Two partners must have complementarity rather than similarity, so that together they can achieve results which each could not have reached on its own.*

This second hypothesis is about the choice of a partner once a firm has decided to enter an alliance. A first point that is relatively easy to look at is the size of partners. The choice has been made to look at companies' turnover to measure their size. The number of employees could also have been a criteria, but there can be a great difference in the number of employees of two companies who have the same turnover, depending on the way they are organized. Turnover may not be a perfect measure of size, but it allows to compare companies.

The alliances that are of interest here are the ones with global goals more than the ones focused on more specific projects. Indeed, in the latter type of alliance, the choice of the partner may be less crucial. The project that will be worked on is clear, and it seems like these alliances are more a way for a big foreign operator to enter a new market than a search for real cooperation on the long term between the partners. They will not have to develop a common strategy in the way partners in global alliances will. Therefore, the study will concentrate on the global alliances for this hypothesis.

4.2.1. Size

The Global One partners, FT, DT and Sprint are all within the largest operators in the world. In 1995, DT had a turnover of almost $41 billion (DT webpage, 1996). FT's was of $32 billion (FT webpage, 1996). This makes these two operators the largest in Europe. Therefore, the choice of a partner within Europe seems to be the right one here when looking at the size criteria. The third partner, Sprint, has a somewhat lower turnover with $12.8 billion in 1995 (Sprint webpage, 1996). This can mean danger for the stability of the alliance, as FT and DT have more financial power than Sprint has.

That size can play a big role in the evolution of alliances has been showed recently again with the announced merger of BT and MCI, in which BT will buy MCI. The size difference was not that big: BT had a turnover of $23.8 billion in 1995 (BT webpage, 1996), and MCI's was $15.3 billion (MCI webpage, 1996). But it has been big enough for BT to be able to buy MCI. This does not mean that the cooperation has not been successful between the two firms, but that one had more power than the other, and the possibility seeing the success of the cooperation to become owner of its partner.

A third alliance including several operators is Unisource, with Telia, the Swedish operator, PTT Telecom from the Netherlands, the Swiss PTT, and Telefonica de España.

This involves partners within the same "range" of size, but with the largest twice as big as the smallest, with turnovers varying from $5 to 11 billion in 1995 (ITU World Telecommunication Indicators Database, 1996). It is likely that none of them has the financial power to buy any of its partners. The Unisource alliance has entered an alliance with AT&T, called Worldpartners. Here the size difference is very significant, and once again the size criterion has not been respected.

Similarly, in other global alliances there seems to be at least one or two dominant companies, which are significantly larger than the other partners. For instance, Infonet has large participants such as FT and DT, but also smaller ones such as Belgacom ($4 billion turnover in 1995) or Telia. Another example would be Iridium, clearly lead by Motorola.

So the facts seem to show that size is not a predominant criterion in the choice of partners in the telecommunications sector. Depending on the goal of the alliance there might in fact not be such a large choice for partners. For instance, FT and DT if they wanted to have global reach needed a long-distance carrier as partner in the United States. MCI had an alliance with BT. There have been some early talks with AT&T, but they did not go through, so the choice at the end was limited. There are a lot of long distance carriers in the United States, but not comparable to the three largest ones, so Sprint was chosen. So it seems that if size is not that important, at least the partners must be of equivalent strength in their domestic markets, or have the ability to reach common goals together, with each providing a substantial help in the alliance. Moreover, it seems that the more partners there are in an alliance the less size is a factor. For instance, there are much larger differences in size within the Infonet or Iridium alliances than in Unisource, Global One or Concert.

4.2.2. Strength

The next criterion that theory has showed to be important in the choice of a partner is the similarity in strength. For this case and the following as well as the next hypotheses, only the Global One and Concert alliances will be used as evidence, because the points that need to be studied need a better knowledge of the partners and the terms of the agreements between them.

The strength of a company is not easy to measure, or define. It is not exactly the same as size, although size certainly plays a role in this. Maybe a better way to measure strength would be to look at the market shares of the companies in their home markets. But here again, the regulatory and other conditions are so different that companies are hardly comparable, mostly European and American companies. Still, it can be interesting to look at companies' place in their home market to have an idea of their strength.

First, FT and DT. These two operators are in markets that are still protected for some services such as voice telephony, and they have had a monopolistic position for all telecommunications services in their home countries until very recently. Therefore they are still by far the dominant telecommunications services companies in their countries. For examples, data transmission and other non-voice telecommunications services have been liberalized in Europe since 1990, but FT and DT still dominate this market, helped by their monopoly on the provision of infrastructure (lines and switches), and have managed to retain more than 75% of their domestic data transmission markets. This means that they are of about the same strength, if strength is measured by market shares in the domestic market. Sprint, on the other hand, is in a different position. It is only the third largest long distance operator in the United States, far behind AT&T, and also behind MCI. In 1995, Sprint had 14% market share of the traffic of big companies in the United States, and only 7% share of the residential market. In total, this gives Sprint around 10% of the total long distance market, which places quite far from AT&T's 60% and MCI's 19% market shares (Chakravarty, 1995). So Sprint is not as strong as its partners in what concerns its core business. But Sprint might have other strengths which are not measured in market shares. This however is more related to the strategy of the company and will be studied in that part.

Concerning BT and MCI, we find approximately the same situation. The British market has been liberalized more than 10 years ago, which makes it different from the French and German markets. However, before liberalization BT was the national operator, and it has managed to keep most of its market share: in 1994 BT still had 94% of the residential market, and 88% of the corporate customers. Most analysts expect these figures to drop for BT, but up to now the company has remained clearly dominant in its domestic market (Arnst, 1994). As seen before, MCI is not as strong on its home market, and maybe this difference in strength has also been a factor for the outcome of the Concert alliance, that will now be owned in total by BT.

### 4.2.3. Strategy

The next important criterion is strategy. This is really a key point, as two or three firms will only be able to cooperate in an efficient way if they want to reach the same goals, and agree on the path to follow to reach these goals. In the cases we are studying, the relevant strategy is the one for internationalization. Two firms will be compatible if they have a comparable level of internationalization when they enter the alliance. They do not need to have presence in the same markets, and it can even be an advantage to combine two companies with presence in different countries. But the important point is that the partners have the same will to get global presence and similar experience in entering foreign markets, or at least agree on the way to get it, so that their cooperation can be fruitful.

First, the different international ventures of Global One's and Concert's partners will be listed, to see if they have achieved a comparable level of internationalization, and in what regions of the world.

Based on the data available (Azoulay and Sarker, 1995), the alliances these companies have will be listed, and ordered according to the country where the business is.

Table 3. Deutsche Telekom alliances.

| Country | number of alliances. Total: 13 |
|---|---|
| International | 3 |
| France | 1 |
| Hungary | 1 |
| Kazakhstan | 1 |
| Russia | 4 |
| Ukraine | 2 |
| United States | 1 |

Table 4. France Telecom alliances.

| Country | Number of alliances. Total: 18 |
|---|---|
| International | 4 |
| Europe | 1 |
| Argentina | 1 |
| Belgium | 1 |
| Caribbean | 1 |
| India | 1 |
| Japan | 1 |
| Kaliningrad | 1 |
| Mexico | 1 |
| Poland | 1 |
| Romania | 1 |
| Russia | 1 |
| United States | 2 |
| Vietnam | 1 |

Table 5. Sprint alliances

| Country | Number of alliances. Total: 10 |
|---|---|
| International | 2 |
| Bulgaria | 1 |
| Canada | 1 |
| France | 1 |
| Hong Kong | 1 |
| India | 1 |
| Poland | 1 |
| Russia | 1 |
| United Kingdom | 1 |

This shows that although France Telecom has the most alliances, and Sprint the fewer, all three partners do have quite a large number of alliances, which means that they all are looking for new markets and customers. However, it is interesting to notice that DT's alliances are all focused on the Eastern European countries, and ex-Soviet Union countries. This shows that DT might not have been looking for global presence before it entered the Global One alliance. It has not been a primary focus for DT because there still is a need for a lot of new infrastructure in Eastern Germany, and a great part of DT's investments are being used for that purpose.

On the other hand, both Sprint and FT have alliances in countries all over the world, except South America for Sprint. This shows a common will to enter a large number of foreign markets, and in this perspective, it seems like Sprint and FT's internationalization strategy is close, whereas DT's is not as developed.

Now for Concert's partners.

Table 6. British Telecom alliances

| Country | Number of alliances. Total: 10 |
|---|---|
| International | 1 |
| Europe | 1 |
| Belize | 1 |
| France | 2 |
| Germany | 1 |
| Gibraltar | 1 |
| United States | 3 |

Table 7. MCI alliances

| Country | Number of alliances. Total: 6 |
|---|---|
| International | 2 |
| Canada | 1 |
| Mexico | 1 |
| New Zealand | 1 |
| Venezuela | 1 |

Here we see that both partners have less alliances than Global One's partners. But this does not mean that they do not have a strong internationalization strategy, especially for BT. Only it seems to be different, as a great majority of BT's alliances are in industrialized countries, which is very different than what we have seen in the previous cases. Also, some of them are not even alliances, but just international operations, as 4 out of the 10 are fully owned by BT, and this was before MCI was bought, so from now on both Concert and Syncordia will also be owned by BT for 100%. And for the remaining alliances, BT has at least a 50% stake in most of them. This shows a different strategy, where BT seems to want to enter the industrialized markets more than the developing ones, and to be as much as possible in total control of the operations. Here again, MCI has fewer alliances, seems not to find it is important to have a majority stake in them, so the strategy is different, and this can again explain why they agreed to be taken over by BT. So in this case, both firms' strategies do not seem to really match.

Another aspect of strategy that can be compared is the behaviour of the different partners concerning innovations and new technologies. Are they trying to lead technological changes, or are they just following trends?

Sprint, although the smallest of all the firms we are considering here, it is also very dynamic. Its strategy is now to become a company that will be able to offer customers all the telecommunications services on a global basis. To do so, given its size, it realizes it needs strong partners. But also, the company's strategy is to "force the technological change, rather than be forced by it" (Subrata N. Chakravarty, 1995). To do so, Sprint has the advantage of being a young company. Thanks to this, the company has an important number of fiber optic cables and digital switches. This is now an advantage for Sprint, which attracts corporate business from large companies thanks to its performant network and technology. Sprint is also a leader in Internet carrying.

Concerning technology, FT is following a similar strategy to Sprint, as it has a very highly digitalized network. Globally the European network is very efficient, and FT and DT have already worked together in Eunetcom, managing to build a high-speed network throughout Europe. Here it seems like the youngest and smallest firm is a little bit ahead and more dynamic, but overall technologically the three partners seem to be compatible.

### 4.2.4. Culture

Close to strategy is the notion of corporate culture. Here it seems like the American and European companies are quite different. Indeed, BT has been privatized, but it still has the history of a large, monopolistic company. FT and DT still have this status. This means that the number of employees compared to the revenues is high, compared to that of MCI and Sprint. There also are differences in the way the companies see and approach the market. MCI and Sprint's marketing is far more developed, as they were created to be competitors to AT&T. The European operators have a different approach, and this might be one of the biggest differences the partners will need to work out.

To summarize, we have seen that the partners forming alliances do not really met the criteria that the theory pointed out as being important for successful partnerships. The partners are not highly incompatible. They are all big players in the same area of business, but each has handled changes in its own way in the past. They are complementary in some ways, like the markets to which they give each other access, but there still are differences in their strategies, and mostly in their cultures and environment. These facts do not mean that the alliances are not going to be successful, and in fact Concert has already proved its success. But it means that these alliances are not necessarily stable. BT and MCI have decided to merge, which shows that there was a disequilibrium somewhere in their relationship, even if it may turn out to be the best solution for both partners. Concerning Concert and the decision of BT to acquire MCI, it seems that the criteria were not really met, which lead to an alliance that was not very stable. But the external conditions have also changed, mostly in the United States, since the alliance was first set up. Indeed, the Telecommunications Act of 1996 changed the restrictions on telecommunications firms, mostly long distance and local operators. They will now be able to enter each other's markets, which was not the case before. Therefore, BT might have feared that MCI would be acquired one of the RBOCs wanting to get into the long distance business, and decided that it had to move quickly to be ahead of such an event. Also, BT had been in talks to acquire Cable & Wireless. But this did not go through, and maybe after these failed talks

BT wanted a stronger hold in MCI to ensure that they would not loose them as partners. So more than the fact that the criteria were not met between the two partners of this alliances, there also have been some changes in external conditions that have pushed BT and MCI to decide to merge their operations.

The partners seem to be complementary in some ways, and they are definitely going to be able to reach results together that they could not have reached on their own, but the choice of the partner has not been made on the criteria of choosing the most suitable partner only. The study of the next hypothesis will show what some other reasons can be, and what each of the partners is looking for in these alliances.

## 4.3. Hypothesis 3

Hypothesis 3: *Telecommunications operators, when looking for partners for international alliances, will not only look for the best ones according to the criteria found in the previous parts, but will also try to reach agreements that will allow them to protect their home markets and stay dominant in those markets.*

The previous hypothesis focused on the criteria for choosing partners, and the study showed that they are not all well met in the case of international telecommunications alliances. This means that there are certainly some other reasons that have decided the partners to get together.

First of all, globalization is a fact, and demand for global services is real. Therefore, telecommunications operators, if they want to be able to answer this, need to find the most effective and rapid way to do it. Finding partners around the world seems to be an obligation for any company in the telecommunications sector nowadays that wants to stay competitive. So there is a need for alliances, and also a need to get access to the world's largest markets, which up to now are the United States, Europe, and Asia. Companies need each other as they are forced to cooperate to remain competitive. A European company, if it wants to offer services to a customer who has part of its business in the United States, will need to have access to a network, and the most effective solution is to have an alliance with an American company. This is true the other way, and for all markets.

Also, the regulatory restrictions to enter markets are diminishing, and soon there will be competition in the European market. National operators are feeling threatened, and want to protect themselves as much as possible. Getting into an alliance is a way to eliminate a potential competitor. Indeed, when looking at the agreements between the companies creating Concert and Global One, we see that each will be an exclusive distributor in its home country, and there are some non-competition agreements. For example, DT will not compete with FT, it will not offer services in France, and vice versa. This is very important with the market opening up to competition soon. It means that neither of them will have to worry about its large neighbour's behaviour, it turns one potentially very strong competitor into a partner. Of course, by protecting the home market the companies close an opportunity to enter the partner's home market. But they win some security, and a greater strength to offer global services. The most clear example of this kind of reaction is DT and FT. They are two very large operators in neighbouring countries, in a market about to be opened to competition. The companies that could have been the biggest threat for each other are now partners, and even if they do not totally fit each other strategically or culturally, they both feel this was the best solution.

The regulatory and legislative bodies that examined the deals before allowing them to go through also saw some danger of them consolidating the companies' monopoly positions in their home countries. The European Commission in fact did not approve of the first deal that was proposed between FT and DT, and sent them a "warning letter" explaining to them what the concerns were and what changes needed to be made in order for the deal to be acceptable. The alliance with Sprint played a role into this, because it gave the whole deal a clear strategic purpose, being global, and showed that FT and DT were not just trying to protect their market and consolidate their monopolies. Some of the conditions that were linked to the approval of the deal are the opening up of the French and German market to competition. European Competition Commissioner Karel Van Miert said at a conference: "we must see to it that such strategic alliances take place in an environment that is sufficiently competitive that they are not going to consolidate monopoly or dominant position". So we see that the European Commission is strongly pushing its member countries towards opening up to competition, as quickly as possible.

Other conditions that are supposed to prevent DT and FT from strengthening their dominant position through the alliance are the prohibition from cross-subsidizing the joint venture and discriminating against other markets players.

As a conclusion concerning the motivations for telecommunications firms to enter international alliances, there are different aspects. One of them, as pointed out by the Ovum's report, The World's Major Telcos 1996, is meeting the demands of multinational customers. Also, the introduction of competition in many home markets is making it necessary for incumbents to extend their geographic reach (Exchange, 1996). So the advantages of entering into alliances are twofold. First a company gets access to new markets, and it is able to achieve things it would not have been able to do on its own. Geographic access is not the only advantage, there is also the sharing of technology, economies of scale, and other financial advantages. In short, all the positive points that alliances can have in all business sectors. Second, it is a way to prepare for or to face competition, by turning potential competitors into partners, and allowing firms to be stronger and therefore more able to face other competitors.

### 4.4. Hypothesis 4

Hypothesis 4: *The goal of international alliances in telecommunications is to be able to offer global services, so that they can satisfy the needs of multinational companies, which* *are very large users, by offering them "one stop shopping". However, up to now no company or alliance is able to offer truly global services.*

The purpose of the Concert and Global One joint ventures is primarily to offer what they call "global service". This means being able to offer services to a customer in any part of the world. But so far do the customers really get that kind of services, or are there still some shortcomings to the capacities of these new companies? This study's answers to these questions, will for one part be based on some articles that express doubts about this and show what the situation and offering is for the moment, and also on a review of Global One and Concert's advertising and documentation, to see what they claim to be offering and to what extend their services are really global.

First of all, alliances are a risky enterprise by nature. According to research carried out by Maquarie University, "strategic alliances promise much but often deliver little". Elizabeth More (Exchange, 1996) has found that the results of the Ovum's report The World's Major Telcos 1996, showed some weaknesses in the major international alliances in telecommunications.

Concerning Concert, the main weakness would be the lack of a partner in Asia. There have been talks in the past of BT acquiring its competitor Cable & Wireless, which has a significant presence in the Asian market, but they did not go through, and Concert still needs to establish itself in this market. However, it seems like there are no internal tensions within the alliance, which is a good sign. The partners have indeed reached an agreement for BT to acquire MCI, so it is hard to talk about an alliance any longer, but at least while the two companies were still only partners there were no cooperation problems.

On the other hand, still according to Elizabeth More (Exchange, 1996), there have been some signs of tensions between the Global One partners. There have been rumors saying that recent meetings between senior managers of the three companies have been difficult. Global One has not been operating for a very long time, and the partners still need to prove that they can work together on a long term basis. Also, Global One has the same problem as Concert in Asia, it still does not have a partner in that region.

There also seems to be some sort of an organizational problem in the alliances, at least from the part of BT and MCI. An example of this is pointed out in an article from Network World, (1994) about global services rates and tariffs. This article explains the different rates that MCI and BT North America (both owned by MCI) offer for international services. Its turns out that for data transmission MCI is the cheapest choice, but for voice BT North America offers the better deal. Both companies offer Concert Virtual Network services, but not for the same price. Depending on the customer's use of services, switching from "normal" MCI services to Concert services might or might not be cheaper. The author argues that some customers may consider that the ease they will gain by using Concert services and only having to deal with one company is worth the increase in price. But it seems like there are limits to the convenience you gain. Indeed for the example of Concert Virtual Network services, the on-net service (the cheapest because using the companies' own networks) was only available in Australia, Canada, France, Germany, the Netherlands, Sweden, the UK and the US in December 1994, and for the rest of the world, customers either had to make arrangements for dedicated access themselves, or pay the higher on-net to off-net rates. Even within these countries, the data calls were much more expensive than the voice calls, and a customer may have been better off looking for another carrier if it was concerned with price. This was in 1994, and there have been changes since then, but it is a good example that two distributors of the same Concert services, even owned by the same company, were not able to offer similar prices, and that one-stop shopping maybe was not the best solution for the customer.

The situation for services which were not initially within the Concert portfolio has not always been clear either. MCI is operating only on the American continent for Concert services, but this does not mean that is has abandoned all other business it previously had in other regions of the world. For example in 1995 there was a somewhat unclear situation concerning the provision narrowband on-line services outside the US. MCI was providing leased channel access directly into the backbone of the Internet to large corporate customers, telecommunications administrations and resellers of Internet services. BT said to have no plans of offering such services in Australia which is part of its Concert "territory", and was satisfied to leave this to MCI. But MCI, which had a plan to offer an Internet software package in the US, did not wish to do so in Australia. Given the fact that MCI had the products available to enter a large Internet market campaign, the popularity of Internet, and with BT wanting to establish itself in Australia, both carriers' actions seemed surprising . This is another example of a weakness of the joint venture: lack of cooperation. Eventually the point is to be able to add more services to their global offering, but it seems like in that case the steps were not taken to make it possible.

But there are also some positive points that show that Concert and Global One are on the way to offering what can really be called global services.

For example, the fact that BT sold its US operations BT North America to MCI is a positive point. It allows the two networks to be worked on simultaneously, so that eventually they have the same capacities and similar services can be offered through both. Also, Newswire stated in June 1996 that the BT and MCI networks were now fully compatible, allowing for the seamless transfer of technology and services including network management and billing systems, calling card platforms, Friends and Family, and software offerings. The two companies also cooperate on joint research and development, personnel exchanges, global account management and bidding for equity stakes or operating licenses in key foreign telecommunications companies.

BT by itself has operations in 30 countries, which makes it a good start for having global presence.

Another news concerning the Concert alliance in June 1996 was the announcement that the two partners would merge their Internet networks to offer "Concert Internet Plus" international Internet services. This would represent the largest deployment of Internet hubs outside the United States. BT and MCI plan to add up to 20 Internet superhubs by the end of the year to increase their points of presence. According to a chief executive of

BT, this will be "the first global Internet network managed by one entity". The company predicts that by he turn of the century the amount of traffic carried over BT's networks for Internet will exceed voice traffic (Information & Interactive Services Report, 1996).

Global One has started its operations later than Concert, so it can be expected not to have the same global presence as its competitor. However, at its start the venture planned to develop national networks to provide long distance services in other countries as required by customers. At the beginning of the operations the alliance had more than 2000 employees, almost 1200 switching centers or points of presence, 23 customer services centers and six network management centers (Reuters, 1995). In July 1996 there were more than 2900 employees and presence in over 60 countries around the world. France Telecom already has a good experience of global or at least international services. It has been active in foreign telecommunications markets for decades and has acquired substantial global experience offering basic telephony and value-added services. FT is a significant force in the development of telecommunications networks in several countries. It has offices and subsidiaries in more than 30 major cities in North America, Europe, the Asia-Pacific region and Latin America (Reuters, 1995). This experience and presence is important for the development of the alliance and its activities.

To summarize the conclusions concerning this last hypothesis, it can be said that neither Concert or Global One really is in position to offer truly global services in all areas of telecommunications yet. The biggest weakness seems to be the lack of a strong partner in

Asia for both alliances. But the number of services are constantly growing, and the alliances seem to be quite successful, even if the outcome of one has them has been the acquisition of one partner by the other. If they are not global just yet, they are becoming so, and it seems like the solutions the partners have chosen to reach this are effective.

## Chapter 5

## CONCLUSIONS AND LIMITATIONS

This chapter will review and summarize the findings that this study has showed. Also some of the limitations this study has will be pointed out.

The first two hypotheses that the theory review lead to were based on the study of international alliances in general, meaning that the theory they were taken from was not specific to telecommunications. The testing of these in chapter 4 was a way to see if they could be applied in the telecommunications sector, which is quite specific. The specificities are mostly due to the kind of services that are implied, the infrastructure that is needed, and the regulatory conditions.

The first hypothesis, about firms reacting to globalization, wanting to get competitive advantages and entering new markets seems to be verified in the case of telecommunications as well as for other sectors. Firms may react differently according to their core business and their current position in the market, but they all are entering alliances in foreign countries. In this case, on of the specificities of telecommunications, which is the opening up of a lot of countries to competition, works as an additional factor pushing firms in their ambitions to enter new markets.

Concerning the second hypothesis, it has been found that the facts do not really reflect what the theory shows. In theory, the choice of a partner for a successful alliance is best made when following a set of steps for selection, and taking some criteria very seriously. In practice, that a lot of these criteria are not met, and that in fact none of the alliances had partners that seemed ideal for each other according to these criteria. This means that the theoretical way to choose a partner can not really be followed, and that there are a number of criteria that are so important that the other ones are neglected. For example, finding a partner in a region of the world where the market is important will be one a company's first concerns, it will be ready to overlook some size, cultural or strategic differences to find a partner in the right country.

A good example is the fact that before the Global One deal, there had been some talks between FT, DT and AT&T. As they did not go through, the European partners finally made a deal with Sprint. But AT&T and Sprint are two companies that have strong differences in the criteria the theory showed to be important. This shows that the need to find a partner in the US for FT and DT lead them not to take these into account.

Another proof that all criteria to have a stable alliance were not met for BT and MCI is the fact that there is now no more alliance, BT and MCI have decided to merge all their operations, and BT is going to acquire MCI if the US government and the European Commission agree to the deal.

Still, the alliances seem to be quite effective, they produce results and are operating. The partners are able to offer services they could not have offered on their own, thereby responding to a real demand in the market.

This leads us to our third hypothesis, according to which telecommunications operators when looking for partners do not only think of the success of the partnership. They also see the other as potential competitors, and turning them into partners not only makes companies stronger to enter new markets, it is also a way to protect the domestic market from potential competitors. This is a reason why meeting all the criteria for successful partnerships might not be considered that important. There are some other strategic objectives in forming these alliances.

Finally, we have looked at the actual services and presence that the international joint ventures are offering, and have found that they still are not able to offer truly global services yet. However, the alliances are successful, Concert's results have been better than expected, it has sold more than $1.5 billion in contract revenue, and recently announced that it would break even one full year ahead of original forecasts.

This means that the alliances as they have been created are responding to an existing need, and even if they have not been formed in a way to theoretically ensure their success, they have responded well to the existing situation and are successful.

The fact that MCI is going to be acquired by BT does not mean that it has failed, this deal can be positive for both companies. The question is now will there be a similar deal between FT, DT and Sprint to respond to this, or will they stay as they are now, with FT and DT owning 20% of Sprint? It is hard to predict given all the changes that are going on in the telecommunications sector nowadays, but what is sure is that most analysts expect more alliances and changes in the future.

To come back to a point made by Allen (1994) concerning the different possible future outcomes in the telecommunications sector and the relationships between operators, it seems like for the moment there are several groups of leading firms on the international scale. They are the ones forming Concert and Global One, and also AT&T and its various partners. This seems to show that we are not heading towards a situation where there will eventually be one single group of leading companies both cooperating and competing at the same time. For the moment, we are closer to the other scenarios, and in fact somewhere in between the two. Indeed, one of them predicted several leading groups of alliances, and the other predicted that within each group one company would take the lead. This is what is happening with BT and MCI, but not for Global One, so it seems like we are somewhere between those two visions. But other changes will come, for the moment the situation is not stable.

This study has showed some interesting results and trends that are happening in the telecommunications sector. However, it has some important limitations. Most of them are based on the fact that the method that has been used is a case study. Cases studies are not meant to prove any general hypotheses, they are just examples of what can happen. The testing of the hypotheses has not showed anything definitive, it was more an observation of some specific cases. Indeed, there was mostly a focus on two alliances, which makes it impossible to extrapolate and generalize what has been found for any other cases. Not enough data have been taken into account to allow to draw any general conclusions. Moreover, things are moving very fast and it is difficult if possible at all to have the latest information. Also, the alliances have been created recently, so it is difficult to assess their results and success. This however has been an attempt to somewhat analyze and understand what is happening in the telecommunications sector, and how some of the operators are acting. Many parameters and other players in the sector have not been taken into account, but this has been a study of the specific type of alliance that BT and MCI on the one hand, and FT, DT and Sprint on the other hand have chosen to create to be able to face the changes and globalization of the telecommunications sector. This can serve as an example for firms in the telecommunications sector that are considering entering into alliances. It compares the points that are important in theory to what has really happened in two cases, and it can make firms realize what they should really be paying attention to depending on what their goals are when creating an alliance.

Also, this study and its conclusions leads to some issues that are related to the topic of international alliances, but have not been addressed in detail here. Some would be the implications that the findings of this study could have from a regulatory point of view. It has been pointed out that one of the reasons why firms get into alliances is to protect themselves and their home market from potential competitors. The question is then whether this means that some of the clauses of the contracts that have been written between the partners are anti-competitive. Regulatory bodies should be very careful concerning this point. Indeed, the changes that are currently going on in the telecommunications sector are supposed to allow more competition, and if the operators react to this by forming alliances that close their markets and stop other player from entering the goal is not reached. However, it can still be argued that the alliances such as Global One do not offer services in all the areas that FT and DT are in, so the non-competition agreements, which are only valid for the services that Global One is offering, will not completely stop FT and DT from having business in each other's countries. Still, if Global One is successful, it is possible that it will enlarge its service offering, and the regulators will need to watch this carefully.

Another change that has happened recently is the possibility for RBOCs to enter long-distance telephony business. The question is, will they attempt to follow the same way the firms we have studied have chosen, and try to offer global services? They may have to if they want to survive in the long run. As their networks don't have the same geographical coverage as the ones of the long-distance operators, the need for partners will be even greater for the RBOCs if they choose to enter the "global service" business. As a consequence, more alliances can be expected, depending on the strategy that these companies will choose.

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