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## **TELENOR IN DEVELOPING NATIONS**

av

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Denne utredningen er gjennomført som et ledd i høyere avdelings studium ved Norges Handelshøyskole og godkjent som sådan. Godkjenningen innebærer ikke at høyskolen innestår for de metoder som er anvendt, de resultater som er fremkommet eller de konklusjoner som er trukket i arbeidet.

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## ***Abstract***

Telenor was a state control telecom company. Since the industry were being deregulated and liberalised in Europe and especially in Norway during the 90's, it was and is still experiencing tough competition, where it is rotted. In addition, the market for mobile in Norway is almost saturated, i.e. there is very low growth if and until any additional useful service is added. However, the telecomm industry all over the world is going through a rapid change coming from deregulation (liberalisation & privatisation), and also from innovation of mobile telephony technology such as GSM & GPRS. These two factors have opened new opportunities for mobile service operators to engage in FDI. Seeing the opportunity coming from opening markets and huge demand for mobile telephony, Telenor has started to invest in a number of countries such as Thailand, Malaysia, Pakistan, Bangladesh, Ukraine, Russia, Montenegro, Austria etc, especially in mobile sector of telecom industry. Mainly using Dunning's OLI paradigm of FDI, I will analyse Telenor's FDI focusing particularly at the Grameen Mobile Phone of Bangladesh, where Telenor has 62% stake.

# 1. INTRODUCTION

## 1.1 Background

With ever increasing pressure of globalization, almost all countries are making sure to be a partner in this process either by joining in regional block, or signing bilateral or multilateral agreement with each other. These agreements, trade unions or blocks open the door for free trade and investments. This makes it easier than before for multinational companies to expand their operation beyond their domestic markets with goods and services. Today more and more firms are operating internationally. A trend among several countries and regions in the world is that, especially over the past 20 years, there have also been deregulations concerning foreign investment into the country (UNCTAD, 2005). During the recent past, the number and the volume of foreign direct investment (FDI) have increased rapidly, as illustrated in figure 1.1 below:

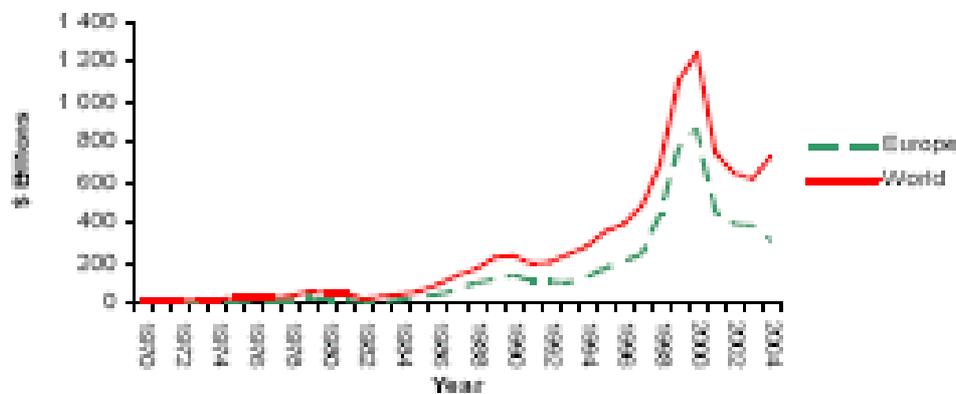


Figure 1.1 FDI outflows in \$ billions (UNCTAD, 2005)

The above figure demonstrates the growth of outward FDI in the entire world and in Europe. The rapid increase in the volume of investments started since 1970s and it continued until 2000. After that there was a three years decline which was mostly due to an overall global economic recession (Eun & Resnick, 2004). From the start of 1970's, the volume, composition and nature of FDI have undergone a series of changes. Throughout the past three decades, the structure

of FDI has shifted towards services. Services comprises a diverse set of activities including basic services such as healthcare, education, banking & insurance, hotel, and water-provision, as well as infrastructure services such as telecommunication, transport, and energy services (UNCTAD, 2005).

In the early 1970s, the services sector accounted for only one-quarter of the world FDI stock; in 1990 this share was less than one-half; and by 2002, it had risen to about 60% or an estimated \$4 trillion (UNCTAD, 2005). What explains this rising importance of services? Several factors are at work. Service has become the largest sector in the world economy, and many services such as telecommunications and banking, are undergoing massive transformations through technological innovation. Because of the fact that many services are not tradable like merchandise, MNEs rely more heavily on foreign direct investment to establish production of their services in foreign markets. Another factor is the liberalisation by countries of their service sectors to attract multinational firms. Finally, the growing prominence of service sector FDI reflects intense competition among multinationals to exploit foreign market opportunities (Root, 2000). The liberalisation of the service sector (telecommunications, transportation, banking, and other utilities) will stimulate more FDI, as we see in this thesis a similar reasoning for which Telenor is expanding overseas in some Asian countries as well as some eastern European countries.

## **1.2 Research Question**

Since late 90's Telenor Telecommunication has started to invest mainly in the mobile sector in the Far East, Bangladesh, Malaysia, Pakistan, Thailand and as well as in some Eastern and Central European countries such as, Austria, Hungary, Montenegro, Russia, Ukraine etc. In this thesis, I would like to find out the answers for the following questions.

- What ownership advantages do Telenor posses?
- How about the location advantages of Bangladesh?

- What strategy is Telenor pursuing in Bangladesh and also what made it to invest abroad and specially in Grameen Phone of Bangladesh, rather than its home or regional market?

As a theoretical guideline, Dunning's OLI paradigm will be used.

### **1.3 Choice of Theory & Company**

FDI is the distinctive feature of multinational enterprises. Interests for theory for FDI among the international economists have arisen especially after World War II. However, no single dominant theory of FDI has emerged yet. In the early 1980s, British economist John Dunning has developed a framework for understanding the international exploitation of corporate assets and since then it has been regarded as one of the leading framework in analysing the determinants of FDI and the foreign activities of multinational enterprises (MNEs). However, theory isn't free from criticism. Still, OLI framework is widely accepted as an analytical tool for FDI of multinationals. This is because of the fact that it helps explain cross country differences in the pattern of international involvement by MNEs. To Dunning, FDI implies that location-specific advantages favour a foreign host country but ownership-specific advantages favour the investing firm (Root, 2000). I have chosen to use the Dunning's OLI model in my thesis for analyzing the Telenor's internationalisation process with regard to its overseas subsidiary "Grameen Phone in Bangladesh".

### **1.4 Organisation of the study**

The thesis consists of six chapters. Here, I present a brief outline of the content for the rest of the chapters. In chapter 2, I describe theoretical framework to understand the internalisation pattern of MNEs. This includes the theory of international portfolio investment, the monopolistic advantage theory of FDI, the internalisation theory of FDI and finally Dunning's OLI paradigm for FDI. In chapter 3, I discuss the recent trend in the telecommunication industry and also a

brief discussion of EU deregulation of the telecommunication industry. In chapter 4, I will be presenting the company “Telenor”, and its history, strategy, structure, international portfolio, motivations of Telenor, business & economic environment of Bangladesh, and Telenor’s joint venture partner in Bangladesh “Grameen Phone”. In chapter 5, I will be using mainly the Dunning’s OLI paradigm to analyse the facts about Telenor and its partners, the location advantages of Bangladesh, and lastly Telenor’s internalisation process. Finally, in chapter 6, I make a conclusion with respect to the finding of my thesis.

## 2. THEORETICAL FRAMEWORK

### 2.1 Theories of MNEs

Theory building for FDI is a new domain in international economics. Since the early 1980s, FDI outflows have grown three times faster than exports and four times faster than world output (Root, 2000). This rising importance of FDI in the international economy reflects the need for a theory for FDI. Economists have come up with different theories explaining the FDI and the activities of MNEs, but no single theory can explain the reality as clearly as the Heckscher-Ohlin model of international trade. The H-O model incorporates a number of realistic characteristics of production that are left out of the simple Ricardian model. The H-O theorem demonstrates that a difference in resource endowments as defined by national abundances is one reason that international trade may occur. These theories of international trade are complementary rather than can explain the FDI independently. In the following section, I will mainly discuss three different types of FDI theories put forward by the scholars of international economics.

#### 2.1.1 The Theory of International Portfolio Investment

According to H-O model, a nation exports products that require relatively abundant factors in their production and import products that require relatively scarce factors. Conventional economic theory has relied on a model of portfolio investment to explain the international movement of capital as a factor of production. The portfolio theory can be explained in two ways. Firstly, this theory assumes that interest rate differences among countries explain the reason for international capital movement. For example, in case of two countries, country A and country B, and also with perfect competition, if country A has got the higher long-term interest rate (rate of return of capital), then capital from country B will move to country A and it will continue to do so until interest rates are equal and the marginal product of capital becomes the same between the two countries. Secondly, the theory can also be explained in terms of the simple formula for capitalizing a stream of earnings,  $C=Y/i$ , where C is the value of

capital assets,  $Y$  is the stream of income produced by the assets, and  $i$  is the interest rate. The capital will move from the country A to country B, when the value of an asset is higher in country A than in country B for the same income stream (Root, 2000).

But, do MNEs respond with respect to difference in interest rate or, do they invest abroad because they expect to earn higher income on the same assets than do local companies in the host country, the cost of capital ( $i$ ) being the same for both country (Root,2000)? When we look at the historical data, we don't find enough evidence in favour of the first hypothesis that rates of return on FDI are higher than rates of return of home investment, particularly when higher risk of foreign investment are concerned. The second hypothesis that MNEs expect to earn a higher income ( $Y$ ) than local competitors appears to be a better explanation for FDI, keeping in mind that MNEs must assume some costs with regards to distance, time, culture, information gaps etc. Further, this second hypothesis is consistent with the observed fact that European MNEs invest in the USA and at the same time MNEs from USA in the same industry invest in Europe.

In conclusion, we can say that the international portfolio investment can't fully explain FDI. Indeed, by assuming perfect competition, this theory rules out any FDI. In perfectly competitive markets, local firm can buy the technology or other skills available to foreign firm. Hence international firms will not possess any advantages over local firm and therefore the foreign firm won't have any incentive to invest abroad.

### **2.1.2 The Monopolistic Advantage Theory of FDI**

The monopolistic advantage theory postulates that the investing firm possesses monopolistic advantages that enable it to operate subsidiaries abroad more profitably than local competing firms (Hymer, 1960). The advantages are with the foreign firm rather than its location and it is not available to other firms in the open market. Under the assumption of this theory, FDI fall into two

categories, Horizontal FDI: e.g. Superior knowledge, product life cycle, and Vertical FDI: e.g. oligopoly. Superior knowledge includes all intangible skills possessed by the firm from which it gains competitive advantages wherever it wants to run its operation. These intangible assets may come from technology, management and organisation skills, marketing skills, patent etc. The possession of superior knowledge allows the investing firm to create differentiated products with physical differences (deriving from technology) or with psychological differences (deriving from marketing skills) reflect on higher product prices enabling it to obtain an economic rent on its knowledge. In brief, the investing firm with differentiated products controls knowledge that can be transferred to foreign markets at little or no cost (Caves, 1971). As indicated by this theory, horizontal FDI will be undertaken mainly by more knowledge intensive firms. Empirical data confirms this assumption.

On the other hand, Product life cycle involves four successive stages: Introduction, Growth, Maturity, and Decline. In the first stage, the product itself is a speciality and the manufacturer enjoys a monopoly for the time being. Seeing the attractiveness of the product, most new products are soon imitated by other producers. Therefore it loses its speciality status and steps into growth stages as the product is manufactured and sold by several producers. In this second stage, product differentiation dominates through promotion, packaging, and services, but as more competitors enters the markets, the different brands become more or more alike to consumers. At this point, the product may step into mature stage and after some time comes the decline stage. The product life cycle theory was developed in 1960s, and Vernon used this concept to explain the U.S. export and foreign direct investment in manufacturing products. Thus it can't explain foreign direct investment taken by other firms outside of U.S. or the phenomenon of cross investment. In the 1950s and 1960s, the assumption that product innovations were first developed for U.S. market and subsequently transferred to foreign market via exports and foreign direct investment was justified by the overwhelming predominance of U.S. horizontal foreign direct investment.

In case of the Oligopoly theory, the Oligopolistic industry is usually dominated by very few big firms whose products may be differentiated or the same. Vertical foreign investment is a prominent trait of homogeneous oligopolies in basic manufacturing and natural resources. Because of the number of firms are limited, so each one of them is very sensitive to competitive action of others. When an Oligopolistic firm acts to obtain a competitive advantage by introducing a new product, entering a new market, or acquiring a new source of raw materials, then rival firms are forced to respond with counter actions. Not to do so would risk the loss of market position or growth to the advantage of the initiating firm. Oligopolistic reaction appears to explain the foreign investment that causes a rapid proliferation of subsidiaries in a foreign country by members of an Oligopolistic industry. However, since it deals only with defensive behaviour, Oligopolistic reaction (Oligopoly theory) doesn't explain why a firm makes the first investment in a foreign country (Root, 2000).

### **2.1.3 The Internalisation Theory of FDI**

The theory of internalisation also called transaction cost theory. This explains why it would be beneficial for a foreign firm to invest abroad rather than export or licensing. The internalisation theory postulates that:

- ◆ Market fails to allocate factor services and goods efficiently due to natural and government induced barriers.
- ◆ The exchange of goods and services can be alternatively done through markets and firms.
- ◆ A firm internalise the exchange when the transaction costs are less than the market transaction cost.
- ◆ Multinational enterprise is an institution that invests in foreign countries for internalising cross national exchanges of factors, services and goods.

The main idea is that there are imperfections in the markets for goods and services and in order to secure the flow of goods and factors of production a firm may opt to invest in a foreign country, and try to substitute market transactions

with inter-corporate transactions. An important aspect of the theory is that internalisation theory explains horizontal foreign investment, as a response to market failure in knowledge. Internalisation enables a firm to appropriate an economic rent for its knowledge that can't be obtained in the external market (Magee, 1976). This theory also explains the vertical integration as a replacement of inefficient external market. In short, this theory assumes that the MNEs invest in foreign countries to capture the market externalities: economies of scale, the ownership and public character of knowledge, and market externalities imposed by governments. In so doing, firm-specific knowledge and other assets lead to foreign direct investment whenever intra-firm transactions become less costly than external market transaction.

All of these theories described above specially the monopolistic advantage and internalisation theory, explain a great deal of FDI taken by multinationals, but it has some weakness as well. In particular, these theories don't explain why the pattern of foreign involvement by the MNEs differs across countries. The only credible answer to this question would be the country specific advantages possessed by each country. Because of these weaknesses, John Dunning in 1980s came up with a framework for explaining FDI which he named "the OLI framework". This will be discussed in details in the next section.

## **2.2 Dunning's OLI Paradigm**

We have seen that different types of theories propose different explanation of engaging or investing in a foreign country for a firm. The international portfolio investment theory can't fully explain the FDI as it assumes perfect competition. When it comes to the monopolistic advantages theory and internalization theory, these theories go a long way in explaining the FDI, but used separately, these theories lose their appeal and can be questioned through empirical findings. For example, superior knowledge, marketing skill, or even patent may not be always satisfactory explanation for FDI. Being a foreign firm, a MNE must have some ownership advantages to minimise the disadvantages it possesses over its local competitors. In other way, it can be said that the foreign firm must have

ownership advantages to cover the cost of international production. Like wise, it can be argued that market failure factor claimed by internalisation theorist is not sufficient in explaining a firm's decision to invest abroad. Based on these problems British economist John Dunning (1997) felt the need for a theory which can address these problems. So in the early 1980s, John Dunning has developed a framework called "The Eclectic Paradigm, also known as OLI framework".

This framework was an attempt to gather previous theories in the field into one single theory of FDI. Dunning referred this as an eclectic theory, because this framework combines three separate fields such as trade (monopolistic competition theories), geography (location theories), and economics (industrial organisation & transaction cost theories) into a single framework for explaining the investment behaviour of MNEs. The eclectic paradigm suggests that three different types of factors must be present to explain the international exploitation of corporate assets. The foreign firm must have ownership advantages (O advantages) that are needed to exploit and to engage in foreign market. There must be some types of advantages coming from internalisation (I advantages), which replaces the external market of exchange with an internal market. The location must have some advantages (L advantages), which makes it preferable to engage in international production. Thus we can say that, various theories of FDI in fact give different explanation of international production, but the eclectic paradigm (OLI Framework) integrates three competing theories. The greater the competitive advantages particularly over those domiciled in the host country, the more likely it is that the firm would be able to engage in that location. Where and how these advantages could be exploited in a foreign context depend on the relative advantages of different locations (L advantages) and the degree on internalisation required (I advantages). These three legs (O Adv, L Adv, & I Adv) gave the name OLI to the paradigm. The three factors claimed to be critical by Dunning are as follows:

**Ownership Advantages:** This is based on the monopolistic theories of Hymer (1960), which are basically the firm-specific competitive advantages of a firm. The ownership advantages are unique to a foreign firm over its local competitors. It can come from its superior technology, management systems, privilege access to finance or raw materials, greater market power, scale economies, or even superior marketing skills. It is important that the advantages are difficult to copy by its local competitors, but can be transferred easily to its foreign subsidiaries. Knowledge assets such as management & marketing skill have got the characteristic of public goods, i.e. the marginal cost of exploiting them through foreign direct investment is near to zero or very small relative to their returns. This is so because at any time the cost to the investing firm of acquiring its knowledge assets have already been incurred sometime in the past. The main advantage of having knowledge asset is that although the marginal cost for the firm is relatively small, but for local competing firms it may require full cost to acquire similar assets.

**Location Advantages:** The decision to invest abroad is influenced by the advantages a location offers to the firm. The location specific consideration deals with the idea that there are conditions in the host country conducive to local production such as local demand, cheap or well trained labour, natural resources, R&D facilities and experts, high quality infrastructure, preferential policies from host government keen to attract foreign investment, clusters of supportive and related industries, growing middle class or even in response to trade barriers in the foreign nations etc. Generally these location factors can be categorised into four groups, but we have to keep in mind that there may be some other location factors that are important in some other industries.

- ◆ *Comparative advantages:* The effects of resource availability (labour, land, and so forth) on the costs of producing in different countries.
- ◆ *Economies of scale:* Condition that favour concentrating production in a few locations and serving other national markets by exporting.
- ◆ *Government policies.* This includes favourable or non favourable policies. In case of tariffs and non-tariff barriers that make it difficult to export from

the home country, for example, government preferred policies for FDI attraction.

- ◆ *Trade blocks:* Rules & regulation or any kind of setup, those favour a member country of a free trade or economic area or similar bilateral/multilateral agreement, which limit export for a country that is not a member. In this case, production will be performed in any member country, which may also be used to serve other markets within that union or block. For example, because of special policy towards the European Car Producers, Japanese auto producers have invested in EU member nations to avoid such trade barriers.

Location factors are the key to answering the question “export or FDI”. It should be noted that the answer could go either way depending on the nature of product and services it produces. In some cases it is more profitable to export from the home country, for instance, because the home country has comparative advantages coming from the availability & low cost of the most important resources needed in producing the product. In other cases foreign production in an affiliate established by direct investment is more profitable, for instance, because the foreign country has high tariffs on imports of product (Pugel, 2004).

**Internalisation Advantage:** Even if the firm rules out exporting as a way of serving the foreign markets, it still can earn profit from that particular market through alternative policies. Instead of direct investment, the firm can sell or rent its firm specific advantages (O advantages) to a local firm. In deciding the different types of entry mode, the firm must weigh the advantages and disadvantages of each alternative. An important advantage of licensing is that the firm can avoid the inherent disadvantages of establishing and managing its subsidiaries in a foreign nation. On the other hand, there are some advantages of engaging direct which may override the disadvantages attached to it. The internalisation advantages postulate the benefits a firm receive by controlling the international production and distribution through internal exchange. It is an important part of protecting a company’s competitive advantage (Griffin &

Pustay, 2002). The I component in the eclectic paradigm is the critical leg, it explains why firms internalise the cross border market transactions rather than selling their rights to independent firms, given the O advantages of the firm and L advantages of countries. The Internalisation advantages arise from avoiding the transaction costs and risk of licensing to an independent firm. Negotiating licensing or even other forms of entry modes may be costly for a foreign firm. FDI keeps the use of the assets under the direct control of the firm itself, so there is least likely that the assets will be disclosed to third parties. The importance of internalised use of firm-specific intangible assets explains why FDI occurs to great extent in high-technology industries e.g. electronic products or pharmaceuticals and marketing-intensive industries e.g. food products or automobiles, than it do in standard-technology industries e.g. clothing or less-marketing intensive industries e.g. paper products (Pugel, 2004).

The eclectic paradigm further asserts that the precise configuration of the OLI parameters facing any particular firm, and the response of the firm to that configuration, is strongly contextual (Dunning, 2000). Dunning characterised the contextual variables into four groups:

- ◆ Demand or Market oriented factors (Market seeking firms) e.g. follow the customers.
- ◆ Supply or Input oriented factors (Resource seeking factors) e.g. access to raw materials or intellectual sources.
- ◆ Cost oriented factor (Efficiency seeking enterprises) e.g. cost & skill of labour, economy of scale, favourable treatment from host government.
- ◆ Strategic oriented factors (Strategic assets seeking enterprises) e.g. diversifying risk by investing in separate regions, competition in home country, avoid trade barriers, acquisition of knowledge assets.

The first motivation is connected to a firm's aspirations to gain access into a foreign market. Determinants that companies look for in the host country in order for an FDI to be undertaken, in terms of market seeking motives, are among others the size and growth of the market. When firms invest abroad they

do so in new markets which are growing and has not saturated. Companies often tend to invest in markets where their products are in demand and where there are opportunities for growth. Even though a market might be attractive in many ways a firm should consider not entering if competition is too fierce. It is quite common that companies seek specific regions or markets which are experiencing a positive economic trend. The economic development in such a region can create a boost in demand for consumer goods due to higher overall level income. Also, de-employment in the host country might be seen as a gateway to other markets in the same region or even globally. For instance, Mexico is often seen as a gateway to the North American markets. Also, many forms of international business necessitate companies to have physical presence in the market (Griffin & Pustay, 2002).

But this theory is not free from criticism. One of the theoretical debates revolves around the role of ownership advantages in the existences and growth of the MNE. It is also sometimes argued that some of the advantages can't be transferred due to the stickiness to a specific location. Given that the OLI paradigm is a holistic framework to identify and evaluate the significance of the factors influencing both the initial act of foreign production and the growth of such production. The theoretical perception of ownership specific advantages of firms in the paradigm comprises both asset ownership advantages and transaction ownership advantages (Dunning, 1988c). Such distinctions in the type of ownership advantages and the differential ability and desire of enterprises to internalise their ownership-specific advantages as a modality to intricate as well as sustain international production in the eclectic paradigm are not of real interest to scholars advancing the internalisation theory of the MNE. Thus while asset ownership advantages are necessary to explain at least the initial act of international production in eclectic paradigm, their existence is not a necessary condition for international production (Tolentino, 2001).

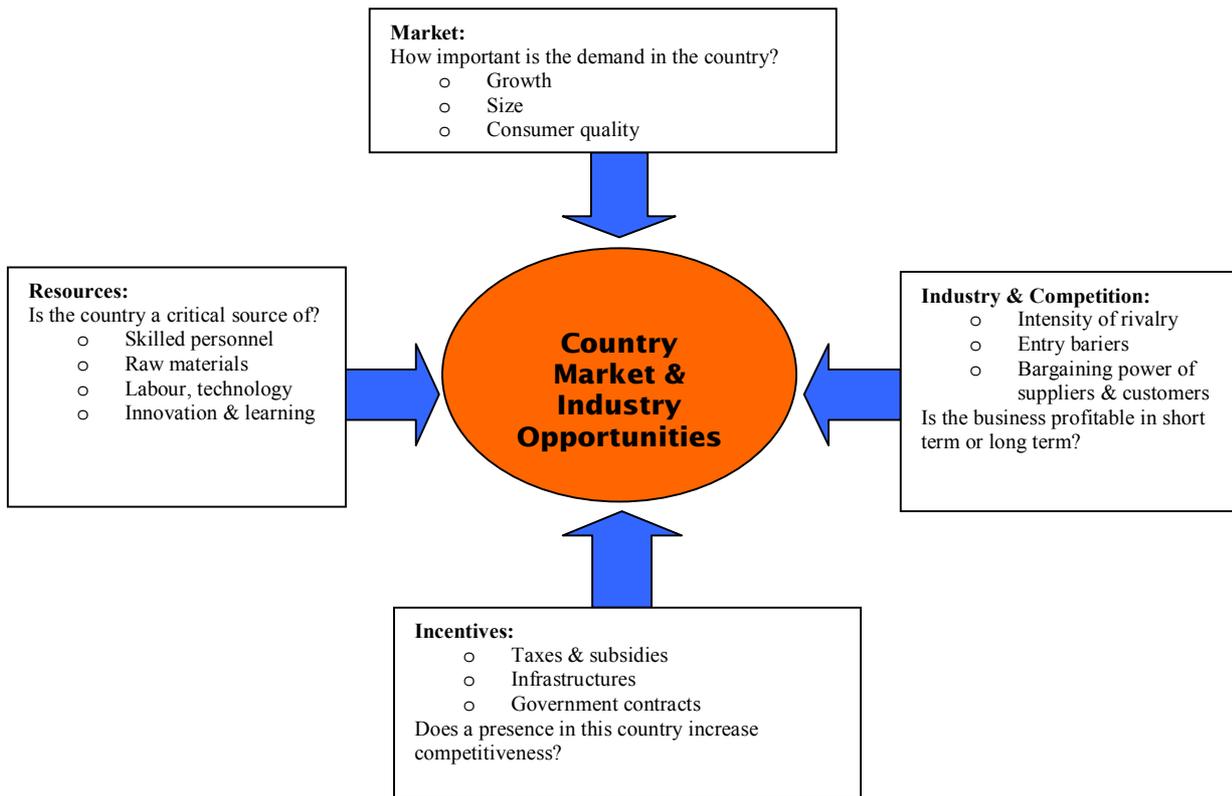
## 2.3 Country Market and Industry Attractiveness

### Assessment Framework

Theoretically, a location will be attractive to a foreign firm if investing in that country, the firm gets a return that is equal to or higher than the risk adjusted cost of capital. Before committing any financial commitment and also to evaluate investment in a particular location, the investing firm must have a wider picture about the market, industry competitiveness, incentive structure and the resources that a particular location has to offer. So an investment decision is not only calculating the return on investment, but also accessing the location factors which are critical criteria for investors especially when the investment is undertaken in another country having its own culture and values, which are different from the home country. Although the business success does not solely depend on the location of the business, its influence on business is vital. To analyse the market and industry together in a particular location, Philippe Lasserre in his book “Global Strategic Management” has put forward the “Country Market and Industry Attractiveness Assessment Framework”. This helps a firm seeking for investment opportunities abroad to identify the location advantages for a specific country or region i.e. it helps to explore and find out the Location Advantages of Dunning’s OLI model.

This framework has got four dimensions such as market opportunities, industry opportunities, regulatory and governmental incentive, and resource incentives, which assess the attractiveness of any location either in absolute terms or relative terms to other locations. The market dimension provides information about the market size, growth rate and quality of demand. The resource dimension offers the information of the input variables by answering the question “is the country a critical source of: skilled personnel, raw materials, technological innovation, learning and also the infrastructure. The competition dimension provides the information about the intensity rivalry, entrance barrier, bargaining power of suppliers & buyers, profitability of the industry in terms of short term or long term. Finally the incentive dimension provides information about the host country’s government incentive structure such as tax, subsidies,

government contract or even look for the answer of “does these incentive structure increases the competitiveness of a foreign firm in a host country”? I present the diagram for the framework as follows and will use it in analysing the location advantages of Bangladesh in chapter-05.



**Figure No: 2.1 Framework for country market and industry attractiveness assessment**

Source: P. Lasserre: Global strategic mgt, 2003

### **3. Recent Trend In The Telecommunication Industry**

#### **3.1 EU Regulation on Telecom Industry**

For nearly 20 years the European Union (EU) has been trying to integrate the telecom industry, resulting in a common telecommunications policy for all EU nations. The liberalisation of the telecommunication markets in the European Union member nations started in late 1990s. Before that the telecommunication companies were normally owned and run by each sovereign state. These telecoms were monopolies within their territories. At that time, the telecommunication policy was an internal and national matter, which combined with the traditional technology of that time lead to a situation where the telecoms formed natural monopolies. Due to the argument for free competition and a common market, change in existing technologies and innovation of new technologies, made the EU Commission to feel the need for introducing common telecom policies in all member states. In line with the main objectives of EU to integrate all the nations' markets, the commission issued a Green Paper regarding telecom policies in 1987. The goal of the EU regulatory policy has been to establish a liberalised and harmonised pan-European telecommunication market, as to stimulate the economic growth, raise the employment rate and standard of living in the European Community (European Commission 1997). The first phase of deregulation had an objective to transform telecommunications monopolies into competitive industries and provide regulations, which could enable fair competition. Since 1<sup>st</sup> January 1998, all member nations of EU were required to comply with the EU directives of the telecommunications regulation and to have a deregulated telecom sector in place.

An essential and initial requirement of the directives for the proper regulation was that all National Regulation Authorities (NRAs) should be free from government's or operators' control. The NRAs must be structurally separated and act independently from the ministry, to which it report. The guideline for the

role is set out in the EC Directives 97/33/EC and 98/33/EC. Each NRA must be given the full range of power to encompass bottlenecks and scarce resources, such as issues related to licensing, interconnection, and special access, universal services and protection, tariffs and accounting systems, numbering, rights of way and local access competition. For that reason, at the start of 1998, all member states had established separate regulatory authorities. Although Norway is not a full member of EU, but the directives are also valid for Norway via European Economic Agreement. From 1998, the Norwegian telecommunication market was completely deregulated. As a result, on 4<sup>th</sup> December 2000, Telenor went public and was listed for the first time on the Oslo Stock Exchange and on NASDAQ in New York, USA. The initial public offering recorded the largest number of private shareholders in Norwegian history.

### **3.2 Alliance and Merger in Telecoms**

Traditionally, forming an alliance in the telecommunication industry especially in case of operating companies was difficult. This was due to the fact that firstly, it used to take long time to obtain all necessary regulatory clearances before an alliance could officially provide services to end customers. Secondly, the partners of an alliance needed to ensure that their network architecture and standards were fully compatible to each other. Up until the first half of 1990s, there had been little achievement from global alliances because of the lack of knowledge about system compatibility between or among partners. It was rather a waste of money as it was very costly to bring together two or more partially incompatible systems, and to construct the missing links needed for high quality truly global presence. This technical aspect is crucial if an alliance in the telecom business needs to survive and continue.

Prior to the mid-1990s, no single operator would have dreamed of going it alone on the global scale to switch over to a wholly digital broadband network designed for large scale data and voice transfer other than in its domestic market,

and hence alliance forming with regional presence. The uncertainty about the future of wireless technologies had seemed to be the main obstacle.

Apart from these reasons of government regulation and traditional technological limitations, there could be some other factors that affect the functionality of an alliance. The differences in culture, strategy and management between or among partners are often difficult to harmonise, and can cause the failure of alliances. For example, the asymmetries of information between MCI (MCI Communications Corp. of US) and BT (British Telecom of UK) management, and BT management & its shareholder raised the problem of distrust among the different stakeholders. Differences in objectives and vision among partners can be a problem as well. Many telecom multinationals have entered into alliance with very different underlying motivations and thus having different visions for their future in that partnership. For example, entering into Unisource, Telefonica's objective was to protect their monopolistic position in Spain and strengthen their position in Latin America, while the Dutch, Swiss, and Swedish saw the alliance as a way to become more competitive in a new deregulated environment (Inkpen, 1998). Even though alliances are not free from problems, telecommunication companies over the past fifteen years show greater willingness to collaborate through the formation of merger and alliance. This is particularly evident in the mobile sector. Obviously the question can be raised of what made telecoms to follow the strategy of alliance and merger in the recent days. Before answering this question, I would like to elaborate some points those hindered the formation of alliance and merger prior to 1990s.

### **3.2.1 Problems prior to 1990s**

The initial industry condition- a combination of available technologies, government policies, and standard business process in the late 1880s and early 1990s tied geography, network, service provider, and service into a single identity to create a monopoly dominated industry (Jamison, 1998). In the past, when large networks had to be build, telecommunications revealed itself as a

field for natural monopoly. The fundamental reason for this was the analogue nature of the signal being transported. The signal being transported was passive, i.e. it contained no information other than the content itself, e.g. the sound of a caller voice. For a signal to be carried through, a precise route on the network had to be established from end to end. Thus, in order for large physical networks to function, the only option was to have a very rigid and hierarchical topology. A signal to be carried from a point to another point went on the same predetermined path. For new users to join the network, they had to be added to the network in a centralised manner. As a result, the numbers had to be separated carefully against interference with each other; it was difficult to have many signals share the same physical means of transport (wire). Once a network was built, the maximum number of calls it could support was fixed. The only way to support more calls would be to install additional physical resources. Because of this technological rigidity, a telephone network had to be controlled in a centralised fashion, and central control implied central ownership and hence often monopoly.

The technical needs of voice services dominated these networks for the first 100 years of the industry (Gabel, 1995). As a result, the technologies, networks, and services were integrally tied and virtually indistinguishable. Traditional boundaries also extended the tie between the company and the geography they served. Influenced by the politics, technology, the geographical boundaries defined the services and markets, and customer needs and marketing seemingly played no role in their creation. The industry basics that tied the elements of geography, technology, service, and service provider into a single identity no longer hold, prompting a need for change in telecommunication industry. In the next section, I will discuss the causes of change in the telecoms industry.

### **3.2.2 Factors pushing for change**

Since the 1990s, Europe, United States and some other part of the world have witnessed multiple mergers involving leading telecom companies. This was the direct effect of the change in technology, customer demand, and government regulations etc. Technology change, computer usages, and liberalisation of telecommunications and media markets have combined to create market uncertainty and differences in opinion as to the future state or dynamics of the business (Shaw, 1998). The changes in business fundamentals created the need for business restructuring, but customer needs, competitive positioning, production, and government policies create the direction (Jamison, 1998). In the next section I will discuss the effects of these changes one after another.

#### **Liberalisation & Privatisation:**

The liberalisation and the privatisation of many historically state-owned monopoly telecommunication service providers are probably the two most significant changes in the global environment of the telecom industry in recent years. While the opening of markets means new business opportunities for some, it also translates to greater competition and possibly lower profits for many incumbent service providers.

The extent of liberalisation and privatisation is quite large. Telecommunications privatisation amounted to almost \$160 billion between 1984 and 1996, most of which were in the Asia-Pacific, Americas, and Western European regions (Raphael, 1998). The liberalisation of traditionally thought natural monopoly markets helped introducing greater competition, resulting in many new entrants in this sector. New competitors are offering their services with lower price, which threatens the previous monopolies and slowly are grabbing part of the market. This competition also lowered the domestic profits for the incumbent telecoms; hence two opposing threats are becoming more vivid: more competition and less revenue.

On the other hand, the liberalisations of foreign telecom markets are providing new opportunities, hence additional revenues for the incumbent telecoms from foreign markets. Although many of the new market opportunities are in developing countries, these markets lack strong, stable legal & regulatory institutions, and also business practices, which may be unfamiliar to the most foreign telecoms. Traditional telecom like Telenor has to deal with these challenges when operating in developing nations. However, one of the main drivers of alliance for mobile, especially those that are small or present in just a handful of national markets, like Telenor, has been eager to gain scale so as to be more competitive and make sure a presence in developing markets. Significantly, the eagerness of telecoms to form alliance and joint ventures is evident across the entire spectrum of the industry, with manufacturing companies forming alliances to share the cost of R&D, develop new products and services as well as to enhance their competitiveness through cost reductions dependent upon economies of scale and scope (Curwen & Whalley, 2004).

#### **Customer Needs:**

There are three types of customers whose telecommunications needs are driving telecommunications companies to become international:

- ◆ Local customers whose needs are primarily network access and use it in day to day purpose. Examples include ordinary people and many local residential & business customers.
- ◆ National and regional customers whose needs for multiple voice and data service are end-to-end nationally or regionally, but in a single country. Example would include some insurance companies and retail chain stores.
- ◆ Global or regional customers whose multiple voice and data service needs are end-to-end globally or in multiple countries regionally. Example would include multinational companies.

These customers drive globalisation of telecommunications because of their local infrastructure needs and global networking needs (Jamison, 1998). FDI in telecom in developing nations is growing because of privatisation &

liberalisation of telecoms sector, granting new operating licenses and also customers' demand for telecom services. But to build telecom infrastructure requires capital, technologies and expertise, which lacks the developing nations, such as Bangladesh.

**Change in Technology:**

Technology change also drives the globalisation of telecommunication. It has altered not only the types of telecommunications services available but also the industry's operation/production cost structure, demands from its clients, degree of product substitutions, and ability in attracting capital investment (Sylvia & Jamison, 2001). Fixed line and voice telephony were the core business for telecom operators for a long time. But due to the development of mobile communication in the beginning of 90s, these traditional telecom operators felt enormous pressure from technological change and increased competition. First generation GSM (Global System for Mobile Communication) came to service in 1992, which is followed by the second generation GPRS (General Packet Radio System) in 2000 with higher capacity for downloading and processing information in greater speed than before.

Technology change often lowers prices and creates higher demand for both consumer and business services, thus facilitating the growth of the telecoms in domestic as well as other foreign markets. This is what we observe in the developing countries like Bangladesh, where customers now can afford low cost handsets, which is as low as \$50.00 per handset. On the other hand and specially in developed nations like in Europe & America, one of the major trends in the communication industry is digital convergence. This creates new opportunities for startups and challenges for tech icon (Baker & Green, 2004). The age of digital convergence in which the computer, the telephone, and the television are no longer distinct product with separate functions is upon us. Whether at home, at the office, or in the class room, we increasingly communicate, learn, and enjoy entertainment using video-on-demand, interactive television, the internet, personal digital assistants, and more (Yoffie, 1997).

### 3.2.3 Strategy the Telecoms following

Traditional telecom service providers are facing daunting competitive challenges. Forces like deregulation, liberalisation, new technology and above all consumer demand are pushing the telecom industry to renew the strategy. As a result traditional telecom operators have been engaged in strategic renewal. A key benefit of strategic alliances is their ability to temper the vagaries of the competitive market for collective gain. Alliances may help to mitigate external environmental uncertainties and potentially avert price wars. However the underlying strategies of forming alliances through joint venture, licensing and other options vary from company to company and three business strategies have emerged in the telecommunication sector. According to research conducted by Anderson Consulting those three observed strategies are (Telecoms Investor, October 1999):

- ◆ *Dominate one piece of the business:* Become a key player in one business sector, like mobile (Vodafone).
- ◆ *Cover all bases:* Compete in as many business sectors as feasible, and if not already a player, outsource the activity or form an alliance with an expert in that sector.
- ◆ *Become a solution provider:* Customise a bundle of the best services. In this way a broker or a systems integrator need own less physical infrastructure or assets, but be nimble on behalf of his client, always switching business partners to suit the vagaries of the market place.

Unlike the manufacturing and traditional services sectors, communication alliances have recently proven especially prolific but also more volatile (Cane. 1998a). Technology development, consumer demand, fierce competition and deregulation have transformed several distinct communications services market into a converged market. Alliances like joint ventures, licensing, and mergers are a couple of ways to enter a new market.

## 4. Telenor, Its Partner & Other Information

### 4.1 History of Telenor

Telenor is the leading telecommunication company in Norway, which is one of the most advanced telecommunication markets in the world. Norway has one of the world's highest penetration rates for mobile, fixed line digital telephony, personal computer and internet usages. The history of Telenor goes back a long way in 1885, when telegraphic service was established under the name of "Telegrafverket- a government institution". The Norwegian Telegrafverket has had several names throughout the time of existence. In 1968, the organisation of Televerket has been changed. The central administration was removed from the Ministry of Post and Transport and converted into an independent state enterprise with its own board. The research institute of Televerket, Televerkets Forskningsinstitutt (TF) was established at that time. Previously, Televerket did not conduct any in house R&D activities. In 1971-77, the regional division of Televerket was reorganised. Before it consisted of 12 districts and 150 local administrative units, which then had been turned into a new structure of 7 tele-regions and 27 tele-areas. A new reorganisation took place, when Norwegian National Parliament in 1985 decided to alter the organisation of Televerket. But it was not until 1988, the decision had been implemented.

In reality, Televerket's monopoly has been eradicated through these reforms and it paved the way for more competition in, amongst others, user equipment and cable TV. From 1989, Televerket was also allowed to compete in the market for value added services. In 1994, the Parliament again decided to convert Televerket into a state-owned public limited company. This took place in November in the same year. In early 1995, Televerket AS changed its name to Telenor AS, with a new and business oriented organisation structure (Hauknes, & Smith, 2003).

## 4.2 The Structure of Telenor

Telenor is the largest telecommunication company in Norway. During the late 90's it has been deregulated and changed from fully government owned into a public limited company. However the government retained substantial stake in terms of shares. Since deregulation began in EU, the telecommunication industry is facing tough competition from new entrants and this is the case for Telenor as well. The company is split into four groups: Mobile operation, Telenor fixed, Telenor broadcast, and Others activities.

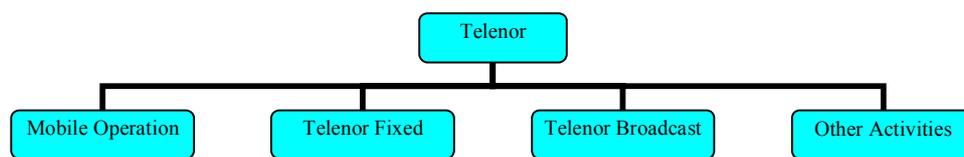


Figure No: 4.1 Structure of Telenor

### Mobile Operation:

Telenor is a leading provider of communications services and one of the fastest growing mobile operators worldwide. Telenor holds controlling interests in mobile operations in Norway, Denmark, Sweden, Ukraine, Hungary, Montenegro, Thailand, Malaysia, Bangladesh and Pakistan. Telenor also holds minority interests in mobile operations in Russia and Austria. In accordance with Telenor's strategy of consolidating its position in international mobile by obtaining control of selected international mobile operations, and in order to maximize the benefit of cross-border synergies and increase overall profitability. Telenor's mobile commitments in Asia and Eastern and Central Europe are becoming increasingly important.

During 2005, Telenor successfully extracted a number of cross-border synergies across the group. Common technologies for optimal spectrum and network utilisation have been successfully implemented at each of the group's operations, and Telenor maintains its focus on adopting new technologies to improve service quality and reduce costs. In order to harmonise the group's

customer orientation across all markets, Telenor has developed a common segmentation model that enables more effective targeting, while also providing greater insight into the global markets. Telenor has developed a framework that provides affiliates with a proven concept of developing target segmented offerings and optimised go to market strategies.

### **Telenor Fixed:**

Telenor is Norway's leading provider of fixed-line telecommunications services, and is strongly positioned in the rapidly growing Nordic market for broadband services. In Norway, Telenor provides communications solutions on a retail basis to both residential and business customers. Offers include analogue (PSTN) and digital (ISDN) fixed-line telephony, as well as broadband voice services over Internet Protocol (VoIP), Internet access via PSTN/ISDN and digital subscriber lines (xDSL), value-added services and leased lines.

Through the acquisitions of Bredbandsbolaget and Cybercity, made in July 2005 for NOK 4.5 billion and NOK 1.3 billion, respectively, Telenor has gained a strong position in the fast-growing broadband markets in Sweden and Denmark. Bredbandsbolaget is Sweden's second largest provider of broadband services, offering full "triple-play" with high-speed Internet, VoIP and Internet Protocol (IP) television services on an all-IP fibre and xDSL network. Cybercity is Denmark's third largest broadband supplier, providing xDSL-based Internet access and voice services to both residential and business customers.

Telenor increased its shareholding in the Swedish residential voice and broadband provider Glocalnet AB by 13.5 per cent to secure a 50.1 per cent ownership interest. In the fourth quarter of 2005, Telenor disposed of its operations in the Czech Republic and Slovakia with a loss of NOK 63 million. Telenor holds a 20.3 per cent ownership interest in the listed Russian fixed-line operator Golden Telecom.

### **Telenor Broadcast:**

Telenor is the leading provider of television and broadcasting services to consumers and enterprises in the Nordic region. Telenor also operates the national terrestrial broadcast network in Norway and is the leading provider of satellite broadcasting services in the Nordic region, utilising three geostationary satellites. Telenor's key objective is to further strengthen Broadcast's position in the Nordic region.

Telenor Broadcast provides TV distribution services to more than three million households and businesses in the Nordic region, offering basic tier, "minipay" and premium pay-TV services to subscribers with Direct To Home (DTH) satellite dishes. In Norway and Sweden, Telenor also offers basic tier TV services, pay-TV and Internet services to cable TV subscribers, and in Denmark, the same services are marketed through a cable network; OE Kabel TV. In Finland, Telenor offers premium pay-TV services to subscribers with access to digital terrestrial television (DTT). Telenor also offers TV services through privately owned satellite master antenna TV networks (SMATV), which serve multiple dwellings such as housing associations and antenna unions.

Telenor's wholly owned subsidiary Canal Digital is the leading TV content distributor in the Nordic region, offering a wide range of national and international TV channels to households that rely on DTH, cable, DTT or SMATV for their reception of television services.

### **Other Activities:**

Telenor has substantial activities in addition to the three above named operations. Telenor's other activities include Telenor Cinclus, EDB Business Partners, Telenor Eiendom, Telenor Global Services, Telenor New Business, Telenor R&I, Telenor Satellite Services, and Telenor Venture.

**Telenor Cinclus:** Telenor Cinclus was created in 2004, and supplies a complete solution for Automatic Monitor Reading (AMR) and machine- to- machine

communication. Their AMR-solution enables utility companies to remotely read their customers' electricity meters on an hourly basis. Telenor Cinclus supplies and operates the complete communications solution. In addition, each individual grid operator can use the communications platform to build other value-adding services, such as surveillance alarms, water and gas metering, temperature regulation or image transmission. Telenor Cinclus is owned by Telenor ASA (66 %) and Skagerak Energy AS (34%).

**EDB Business Partner ASA:** EDB Business Partner ASA is listed on the Oslo Stock Exchange and at year-end 2004 Telenor held an ownership share of 51.8 % in the company. EDB is a leading IT group in the Nordic region. EDB is one of the strongest Nordic centres of expertise for the development and operation of IT solutions.

**Telenor Eiendom Holdings:** Telenor Eiendom Holding is wholly owned by Telenor. At the end of 2003, the company managed approximately 1 million square metres of owned and leased floor space spread out over approximately 4,500 buildings. The company's main task is to ensure that the Telenor Group has at its disposal sufficient premises to allow its main activities to be performed in a cost effective manner.

**Telenor Global Service AS:** Telenor Global Services AS (TGS) is the international carrier of Telenor. The main activities of TGS are international wholesale of voice termination, GRX, MMS Interworking, IPX, capacity, IP VPN and IP transit. TGS has established Points of Interconnect in Oslo, Stockholm, Copenhagen, Amsterdam, Frankfurt, Paris, London and New York.

**Telenor New Business:** Telenor New Business was set up as a separate corporate unit in January 2003. The unit shall identify and develop new product lines and services that can be of significance to Telenor's future core activities and contribute to growth and renewal across the Group's business segments. Telenor New Business will develop business opportunities by setting up

incubation projects, working through industrial partnerships, and by pursuing investments.

**Telenor R&I:** Telenor Research and Innovation make an important contribution to Telenor's value-adding services through strategic consultancy, innovation and improvement of existing solutions. The research and innovation activity is mainly linked to future broadband networks and mobile systems, as well as new services and customer solutions across different networks. R & I also carry out work on new business models and takes part in strategic processes in the Telenor Group. R&I is Norway's largest research community in the field of ICT, and is regarded as one of the leaders in specific areas within European research collaboration.

**Telenor Satellite Services:** Telenor Satellite Services is wholly owned by Telenor and is the world's preferred provider of global communications via satellite for customers on land, at sea, and in flight. The company has more than 35-years of international satellite communications experience and delivers a full range of mobile data, broadband and voice communications to corporate and government markets worldwide.

**Telenor Venture:** Telenor Venture is seeking to create value through active ownership by investing in companies in the fields of telecommunications and IT. Telenor holds an ownership share of 50.10% in Telenor Venture II ASA and 100% in Telenor Venture III AS. The Telenor Venture companies are managed and administered by TeleVenture Management AS in which Telenor has an ownership share of 23.9%. Telenor Venture today also includes Teleservice.

Source: Year report of Telenor, 2005

### 4.3 Strategy of Telenor

Telenor's primary objective is to create greater value for its shareholders, customers, employees and partners, and for society in general. Telenor strive to be a leader in creating, simplifying and introducing communication and content solutions to the marketplace. Telenor is committed in creating, developing and launching new solutions that simplify its customers' everyday life. To achieve this objective, Telenor's strategy has the following focus:

- ◆ To strengthen the performance of its local mobile operations by combining Group industrialization with local drive and responsiveness.
- ◆ To maintain and further develop its leading position within telecommunications in Nordic region with broad range of services in both the residential and business markets.
- ◆ To realise synergies across the Nordic region through establishing Nordic Unit. This is responsible for comprising and coordinating mobile & fixed operations in the Nordic region.
- ◆ To ensure value creation in mobile portfolio by maximising cash flow in mature markets, securing continued subscribers growth in international companies with particular emphasis on subscriber growth in emerging markets and achieving control in order to benefit from synergies across international and domestic operations and hence increase overall profitability.
- ◆ To maintain and further develop a leading position within the Nordic TV distribution market.
- ◆ To enhance the value of those companies which are not strategic for its main business areas and dispose of all or part of interest in such companies.

Source: Year report of Telenor, 2005

#### **4.4 Telenor's International Portfolio**

Telenor has substantial international operations, particularly in the mobile telephone sector, satellite operations and pay television services. As on December 31, 2005, its international mobile portfolio consists of 11 countries, with principle investment in 9 operations apart from Norway. In the next page, I present a list of its subsidiaries and associated companies and other related information as on 31<sup>st</sup> December, 2005.

Table No: 4.1 Telenor's International portfolio

Company	Market	Year of initial Investment	Year of Commencement of operation <sup>1</sup>	Ownership percentage	M.Telephone Penetration %	Market Share Based on Subscription <sup>2</sup> %	Subscribers (In Thousands)
<b>Subsidiaries</b>							
Telenor Mobil	Norway		May 1993	100	107	56	2,731
Sonofon	Denmark	2000	July 1992	100	89	27	1,284
Telenor Mobile	Sweden	2001	June 2001	100	110	17	1,700 <sup>3</sup>
ProMonte GSM	Montenegro	1996	July 1996	100	88	58	310
Pannon GSM	Hungary	1993	March 1994	100	87	34	2,929
Kyivstar GSM	Ukraine	1998	October 1997	56,51	64	46	13,925
DTAC	Thailand	2000	July 1992	69,3	47	28	8,677
DIGi.Com	Malaysia	1999	May 1995	61	73	25	4,795
Telenor Pakistan	Pakistan	2004	March 2005	100	13	9	1,868
Grameen Phone	Bangladesh	1997	March 1997	62	6	62	8459
<b>Associated Companies</b>							
VimpelCom	Russia/Other Countries	1999	July 1994	29,91	87	34	45,414
ONE	Austria	1997	October 1998	17,45	103	20	1,664

Source: Year report 2005 & Quarterly report 2006 of Telenor

1. Dates on which company commenced operations to provide commercial mobile services.
2. Based on Telenor's and local regulatory authorities' estimates unless otherwise stated.
3. The figure is after the purchase of the 100% ownership interest in Vodafone Sweden on 5<sup>th</sup> January 2005.

## 4.5 Business & Economic Environment of Bangladesh

Bangladesh is a parliamentary democracy, with general elections constitutionally required every five years. The Parliament has 300 elected members (MPs) and another thirty selected seats reserved for women only. Parliament elects the country's President, whose duties are largely ceremonial, to a five-year term. Bangladesh is a semitropical riverine nation with fertile soil and a high vulnerability to floods and cyclones. Most Bangladeshis live in rural areas and make their living from agriculture. With 147 million people crowded into an area the size of  $\frac{2}{3}$  of Norway, Bangladesh has the highest population density of any country, except city-states such as Singapore. Since independence in 1971, Bangladesh has been one of the world's poorest countries. Although agricultural output has increased steadily since independence, the country has only recently become self-sufficient in food production.

Bangladesh has experienced fairly robust economic growth during the last decade, which saw the restoration of a democratically elected government and a steady, but slow liberalization of the economy. The average annual growth of GDP in FY2005 was 6.7%. However, the growth rate fell short of the estimated 7.0% growth rate needed to significantly reduce the poverty that afflicts one in three Bangladeshis. Despite a relatively good performance in the last decade, the economy has got many structural weaknesses, which the government needs to address. Chief among these weaknesses is the undercapitalized financial sector, an unproductive and money losing public sector, poor infrastructure including telecommunications & railway networks etc., lack of export diversification, and pervasive corruption at all levels of society. In 2006, Bangladesh scored 2 points (a scale of 01-10, where 1 is the lowest) on corruption index of Transparency International, which also reported that Bangladesh stands on 156<sup>th</sup> among the countries in the world. This is because power hungry politicians have failed to bring peace & harmony in the country, which has adversely affected the business & economic environment, and also investment climate. Business community is working as negotiator and talking with different political parties (mainly two) to bring an amicable solution to this problem.

## 4.6 Grameen Phone of Bangladesh

Since its founding in 1976, Grameen Bank of Bangladesh (a company of Grameen Group of Companies) has become one of the developing world's most successful micro lending institutions, making very small loans to finance small entrepreneurial ventures and cottage industries. By the mid 1990s, the bank felt the need for technology that could benefit the small entrepreneurs with better communication at the same time contributes to the future growth of the Grameen. Luckily in 1994, a US-based native Bangladeshi entrepreneur named Iqbal Quadir approached Grameen Bank with the idea of using the Bank's financing mechanism to establish a nationwide telecommunication business that would serve the country's rural villagers as well as entrepreneurs, who lacks the connectivity through modern telecom. Quadir helped Grameen Bank to understand that rural telephones were the digital equivalent of the cows they had been financing – profitable, secure investments that offered real value to rural villagers (Cohen, 2001). This new idea was particularly a test case for Bangladesh as its telecommunication infrastructure was one of the least developed and also was far behind the neighbouring countries like India, Pakistan and Sri Lanka.

In 1995, the liberalisation of Bangladeshi's telecommunication sector created a unique window of opportunity. The Bangladeshi government decided to auction licenses for mobile phone service providers to private firms. In response to this decision the Grameen Bank formed two entities: i) Grameen Phone Limited in partnership with Telenor of Norway, Marubeni Corporation of Japan, and Gonofone Development Corporation of USA, and ii) Grameen Telecom, which presently owns 38% stake of Grameen Phone, is a non profit company and works in close collaboration with Grameen Bank (Nobel Peace Prize winner of 2006 along with its founder Dr. Yunus). This internationally reputed bank provides micro credit to the poor through the most extensive rural banking network and expertise. Grameen Telecom, with the help of Grameen Bank, administers the Village Phone Program. The internationally acclaimed Village

Phone Program of Grameen Phone is a unique initiative, which provides telephone services in remote rural areas where no such facilities existed before. This initiative also provides the Village Phone shop owners, (offers phone services to make call nationally & internationally), mostly poor village women, a good income-generating opportunity. There are now more than 110,000 Village Phones in operation in some 44,000 villages around the country. Grameen Telecom's Village Program has been launched with a view to use telecommunications as a weapon against poverty.

In 1996, Grameen Phone was awarded one of four nationwide licenses for GSM 900 cellular mobile phones. The network went live in Dhaka (The capital city of Bangladesh) on the Bangladeshi Independence day, March 26, 1997, which was less than five months after receiving the licence. The initial stakeholders for this joint venture were; Telenor (51%), Grameen Telecom (35%), Marubeni Corporation of Japan (9.5%), Gonofone Development Corporation of USA (4.5%).

This structure has been changed due of the change in the Telenor's initial strategy of portfolio investment to the strategy of getting control over overseas subsidiaries so that it can manage and implement its core strategy for mobile telephony more effectively and without conflict of interest from local partners. Both Telenor and Grameen Telecom have managed to increase their share of ownership through negotiation and buying out the other two partners Marubeni Corporation of Japan and Gonofone Development Corporation of US. Today Telenor controls 62% and Grameen Telecom controls 38% stake in Grameen Phone of Bangladesh.

Grameen Phone currently holds both a GSM 900 and GSM 1800 license. The government of Bangladesh has not yet announced any plan to issue UMTS (3G) licenses. As per the quarterly report 2006, total numbers of subscribers were 8.459 million, which represents a 63% market share. But in the prepaid segment of mobile subscription, Grameen Phone has got 93% market share. The

subscription growth rate has been tremendous with 132% growth in subscriptions from 2003. Following is the summary of subscribers for Grameen Phone and mobile penetration rate of Bangladesh as reported on company report of Telenor in year 2005 and also quarterly report of 2006.

Table No: 4.2 Grameen Phone Subscribers & Mobile Penetration in Bangladesh

Mobile Subscription in thousands	Year ended December 31		
	2003	2004	2006*
Contract	242	296	444
Prepaid	899	2,092	8015
Total	1,141	2,388	8,459
Mobile Telephony Penetration in Bangladesh	1.3%	2.8%	9%

Source: Annual Report 2005 & Quarterly Report 2006 of Telenor

❖ The figure in 2006 is based on the first quarter report of Telenor.

Based on the current growth trend for mobile, telephone experts are expecting a subscriber base of 22million by the year 2008. The first part of the mobile business segment in Bangladesh lasted from 1991 till 1996. At that time the market was monopolised by a single company called, **Pacific Bangladesh Telecom Ltd** (PBTL, a joint venture between a local partner and Sing Tel of Singapore) that targeted only the country's relatively small urban elite. This company has a current market share of 4%. Since the liberalisation of the market in 1996, five new operators have entered Bangladeshi mobile market. **Grameen Phone** has 63% market share and covering 85% of land area of Bangladesh and it expects a strong growth in total subscribers in the future. **Aktel Mobile**, which is a joint venture of Malaysian Telecom & a local partner, has got a market share of 23%. **Banglalink Mobile**, it is another joint venture between a local partner and Egyptian Orascom, and it has approximately 9% market share. **Teletalk Mobile**, it is a state owned mobile operator (a mobile wing of Bangladesh Telegraph & Telephone Board, BTTB) offering service from 2005 with 1.8% market share. **Warid Telecom** has got operator license as mobile phones operator as lately as in December 2005. It is a 100% foreign investment of

United Arab Emirates (UAE) based multinational. It is expecting to offer its services to customers by 2006.

Bangladesh is densely populated and its relatively compact geography makes it efficient to cover the country with wireless infrastructure. The main advantages for Grameen Phone as the market leader is that it made an important strategic decision to enter into a long-term (25 years) agreement with the Bangladesh Railways to lease the railways' underutilised, 1800 kilometre, high capacity fiber optic digital transmission network to serve as the backbone of GP's telephone system. This agreement gave GP instant access to a nationwide fiber optic infrastructure that essentially parallels the one operated by the government owned fixed-line operator called Bangladesh Telegraph & Telephone Board (BTTB). This infrastructure and agreement made it possible for Grameen Phone (GP) to offer its mobile services even in rural part of Bangladesh. GP has only built its microwave links in the south coast where such railways is not present because this part of Bangladesh is mostly hilly and mountainous.

#### **4.7 Motivation Behind Telenor's FDI**

In the last decade new technology made the old business model obsolete. It is no longer technically necessary to control all the aspects of the network. Now it is possible for one company to own the lines and the exchanges and for another to provide the traffic to the customers, or for one company to provide local calls and another international. The political, technical and commercial reasons for a natural monopoly have disappeared. In addition, completely new services have appeared especially in wireless telephony and internet-based services.

Competition across the entire telecom services spectrum is now technically and commercially possible. Beginning with mobile services and data networks, competitors have emerged in the monopolies' old playing field, demanding the right to do business and calling for the regulator to create a level field. This means that the monopolist must no longer be allowed to keep certain services exclusively for itself, and it must not use its ownership right of the infrastructure for unfair practice and competition.

#### **4.7.1 Factors Affecting Telenor's Performance at Home**

The initial industry condition – a combination of available technologies, government policies, and standard business processes in the late 1800s and early 1900s – tied geography, network, service providers, and service into a single identity to create a monopoly – dominated industry (Jamison, 1998). Previously telecom industry was considered as a natural monopoly, but this is no more valid today. This is due to development in early 1990s. We saw a change in telephony industry fundamentals due to fact of combined effort of regulation domestic as well regional or even international, customer needs and technology. More competition in national market especially in fixed, mobile, internet and other services lead loosing Telenor's domination. The competition is also leading to price war and hence less revenue for Telenor. Telenor is also feeling the pressure of shareholders' demand of creating value for their investment.

Apart from these, there are some other recent developments which are contributing to more competitive business environment, affecting heavily the fixed-line service operators, like Telenor. Firstly, although Telenor is still the owner of fixed line telephone network, the implementation of law of third party access to the network forced Telenor to open its lines (PSTN & ISDN) for renting to other operators from 2003, enabling the other operators of telephony traffic to deliver fixed telephony subscription to their customers using Telenor's fixed network. This has impacted negatively as it is losing subscribers for fixed-line telephony. In the year 2001, it had a total subscriber (PSTN & ISDN) of 3,311,000, but the figure has gone down to 2,316,000 in 2005 (Company report of Telenor, 2005). That is, it lost around 995,000 subscribers to its competitors only in Norway.

This is a heavy blow for Telenor also in terms of revenue. Today, more and more fixed line phone subscribers are transferring their subscriptions to other service operators who are offering lower line rental as well as lower call charge and even now they are bundling the fixed-line telephony service with broadband (ADSL) internet. To mention further, Telenor's competitors in this sector (Fixed

line & ADSL) Tele2 even gives price guarantee against Telenor. However Telenor is compensating that loss by attracting subscriber for broadband access and cable TV connections. Other competitors of Telenor are not lagging behind, and they are also attracting as much subscribers as Telenor, as the demand for ADSL is growing rapidly recently.

The second factor acting against the fixed-line operator is that people now depend more on mobile technology as the cost has fallen drastically. People are making fewer calls through their fixed-line, hence reducing the operator's revenue and this has also affected Telenor. The rise of mobile phone and also increase in number of its providers both are creating a competitive markets and also eating away the Telenor's core business of fixed-line voice telephony.

The third factor that may affect the fixed-line operators in future is that the rise of internet based telephony. Software companies such as Skype, a London based company offering free software to download to make free phone calls between computers over the internet. Calls between the Skype users are free, because Skype has no infrastructure to maintain, the calls are routed by the computers of Skype users, who already have access to the internet through local internet service providers. The technology that makes it possible for voice to travel on the net is called Voice over Internet Protocol (VoIP). The impact internet telephony is still limited but it could be a big competitive pressure for fixed-line telephony in near future.

#### **4.7.2 Factors Affecting Positively**

The most significant multilateral instrument governing telecommunication sector regulation has been the Reference Paper on Regulation developed by the World Trade Organization (WTO) as part of its 1998 Agreement on Basic Telecommunications. While many countries had adopted the competition policy to the telecommunications sector before the WTO Agreement, there are more

than 70 countries are legally required to do so as part of their obligations under WTO's *General Agreement on Trade in Services* (GATS).

As a result, the governments of developing nations are opening up the market for mobile telephony as well as fixed-line telephony, which in turn attracting FDI in mobile telephony. The main motivation for Telenor is that it has got the technology (GSM & GPRS), which they are using for overseas expansion. The other thing is that the development of modern mobile technology made it cheap for the mobile service operators to offer mobile services in terms of area coverage than to build and run a fixed-line network.

## 5. Using The OLI Paradigm

### 5.1 Telenor Ownership Advantages

The OLI paradigm of Dunning asserts that the decision of whether a company should internalise or not internalise a foreign company be based on combining effect of the 'O' specific and 'L' specific advantages. The most decisive factor for a company wanting to be multinational is that it should have some kind of ownership advantages that can give the company competitive advantages over its local competitors in a particular location. These ownership advantages are internal and exclusive to the company, and the company should have the possibility of enjoying its benefits at least for a foreseeable future. These advantages can be abstract or concrete, which can put the company relatively advantageous position in a particular market. This can also help the company to be the market leader and also to be the cost effective with regard to the competitors. In this way, it gives the company the ability and power to engage in FDI in another region or even in a new nation.

Ownership advantages are the characteristics of MNEs that give them a net competitive advantage over other firms engaging in the same market. Ownership advantages are not stable and it should be described in consideration with the foreign setting where it wishes to invest. To get the benefits from these advantages, the company needs to be aware of its advantages, develop them and finally utilise them in best possible way it can. The greater the ownership advantages are, the greater the chance the company is aware of these facts and the greater the chance the company will use them for expansion.

**Financial Strength:** In 2001, Telenor exercised its sale option on VIAG Interkom of Germany and Esat Digifone of Ireland with a gain of NOK 10.7 billion for each. This together with the IPO (2000) made the balance sheet of Telenor quite strong which put the company in a unique position compared to

many of its peers in Europe. Another factor is that Telenor has limited UMTS (3<sup>rd</sup> Generation) obligation which gave Telenor the opportunity to capitalise more on current GSM technology, both at home and abroad. Further Telenor choose Grameen Bank as partner in Bangladesh, who has already established its name nationally and internationally for its micro-credit financing policy and also for a corruption free organisation. This success micro-credit financing policy for poverty reduction of Dr Yunus (Founder of Grameen Bank in Bangladesh) made him world renowned and credible to investors and lending institutions. This reputation of Grameen Phone gives instant access in getting investment or lending funds from national as well as international financial institutions. The lenders of Grameen Phone is an example of this, as it has got an initial funding of US\$ 125 million, including a US\$ 50 million loan to finance the infrastructure expansion from the International Finance Corporation (IFC), the Asian Development Bank (ADB), and the Commonwealth Development Corporation in Britain (CDC) and lately it has also got finance from NORAD of Norway.

**Knowledge of Telecommunication Technology:** The Nordic National telecom service providers (PTOs) played an important role for the development of ICT in the Nordic area. Much of the hardware development has occurred in tandem with the long term innovations in types and levels of telecommunications services, and the service providers have played a major role in shaping the evolution of the technology, the standards it embodies, and therefore the whole process of equipment supply (Hauknes, & Smith, 2003). Hauknes and Smith also claimed that the former public PTOs were decisive for the later global success of the Nordic telecoms industry, and especially for Nokia and Sony-Ericsson. Nordic co-operation in the telecoms has existed for a very long time, which became extremely important in the development of mobile telephony. In the 1960s and 70s, these countries undertook several co-operative telecom projects which produced the following. Firstly, the cooperation resulted the establishment of Nordic satellite station in Tanum of Sweden in 1971. Secondly, the development of common Nordic computer network, the datex-network. Thirdly, the joint efforts of the development of mobile telephony lead

to the launch of the Nordic Mobile Telephone standard (NMT) in 1981 (Hauknes, & Smith, 2003).

Televerkets Forskningsinstitutt (TF/Televerket Research Institute) of Norway was established in 1967 as a research unit for civilian telecommunication. There is a long debate on what caused the establishment of TF, but Oland (1992) argues that “... in the final resort it was the recognition of an increasingly stronger need for competence with the telecommunications sector in the 1960s, which was decisive for the establishment..” (Oland in Hauknes, & Smith, 2003). Since then TF played an important role in the development of telecom sector in Norway. In the early 1970s it began to work on what would become the world’s first satellite-based telecommunications system for the oil industry (Hauknes, & Smith, 2003). Another example is that during 1970s, Norway’s merchant fleet was the third largest in the world. Communication was difficult and the ships were often out of contact with the shore for hours and even days. To address this issue, TF developed the world’s first automatic shore station that helped the ships at sea to communicate with the control station at shore. Countries around the world copied the low-maintenance, highly effective, shore stations and until the regional station was the busiest in the world (Hauknes, & Smith, 2003).

Telenor is always at the front of developing and adopting new technologies which make the company a pioneer in mobile communications. It introduced the manual mobile telephone services in Norway in 1966, forerunner to the automatic NMT system. It launched the NMT in 1981 in Norway, which was at that time the Europe’s first nation to enjoy a fully automated mobile network. Its digital successor GSM was introduced by Telenor in Norway in 1993. Telenor opened its UMIT (3G mobile network) in 2001 and was available for commercial use in 2004. Telenor has been one of the world’s leading suppliers of satellite communications for many years. Norway and the Nordic region have been in the forefront of the development of mobile communications, and early adapter of new technologies. These factors helped Telenor in building a strong

knowledge through years of R & D in telecommunication sector which also helped to specialise in providing telecommunications services.

As ownership advantages can't be stable over time, so does it applies to those who are in the business of technology. The change in technology happens quickly and the technology related companies like Telenor knows it. In order to mitigate the uncertainty, Telenor has invested heavily in R&D and also is working with several academic institutions such as NTNU of Norway. This will help Telenor to improve its present services & product with tomorrow's technology and solutions. It will keep Telenor on track and also in line with the present technological trend.

**Management Expertise:** Telenor remains committed to internal management and control, both in relation to its management practices and its social responsibilities. Telenor has developed and implemented an integrated management model to strengthen the group's ability and to realise its strategic objectives and specially for expatriates working outside of native nations. Telenor is eager to pass the benefits of products, services and technical expertise which has been developed, and are continuing to develop services under Telenor Group. To implement Telenor's Group strategies and services, it has the policy of sending key personnel in order to hold key managerial, technological and marketing personnel to assist local management in achieving rapid net work roll-out, good network quality, sound marketing strategies, and as well as transferring operational skills and best practices.

Telenor aims to attract and retain highly skilled and motivated employees and managers who display a strong passion for business and who act in accordance with Telenor's Codes of Conduct. It has therefore introduced two global processes, Telenor Leadership Development Process (TLDP) and Internal Value Creation (IVS). TLDP is a tool for systematic evaluation, development and remuneration of managers, while IVS monitors human capital, process resources and quality of management. Moreover, it has also opened a Center of excellence

(CoEs), through which it share knowledge and best practices created in different subsidiaries. Grameen Phone of Bangladesh is at the forefront and active partner of the CoEs. Telenor's Djuice brand was designed to target the youth in Norway. Grameen Phone has adopted the brand and marketed it, and according to Telenor it's a great success for Grameen Phone.

**Network of Related and Supportive Industries:** Scandinavian countries are at the forefront and early adopters of mobile technologies, since two of the world's largest mobile phone producers Sony-Ericsson and Nokia are located here. This gives the Telenor another advantage over its competitors in Bangladesh who don't have such advantage of being at the heart of world renowned telecom cluster of related and supportive industries. Another factor is that it has 43.042 million subscribers which are almost double in just two year time. This gives the Telenor to enjoy the internal economy of scale and also give massive bargaining power while it negotiates the price of mobile phones with the mobile phone, solution, and equipment producers such as Sony-Eriksson, Nokia, Samsung, LG and Motorola etc. The source of getting bargain specially from Sony-Eriksson & Nokia can be that they are located in Scandinavia, have good and close contact with Telenor i.e. enjoying the benefits of clusters.

This cluster effect might also gives Telenor the cost advantages over its competitors because it reduces time and money spend as they are located in a single region and speak more or less the same language except Finland.

Examples of network which benefited Telenor's partner at Bangladesh are: In 2003 Swedish telecom solution provider Sony-Ericsson had supplied and installed the prepaid system for Grameen Phone. In 2005, Nokia has also deployed its Short Message Services Centre (SMSC) and Online Service Controller (OSC) rating and charging solution for Grameen Phone. But Telenor doesn't only work with Nokia and Sony-Eriksson for network solution & equipment, or handsets, but it also has extensive business relationship with Siemens and Motorola.

**Learning Through Competing in a Deregulated Market:** Telenor is getting used to operate in deregulated environment, which gives a valuable experience and learning through serving a highly competitive market. The knowledge gained by Telenor mobile in providing services and solutions in the Nordic region helped Telenor in expanding its mobile operation in emerging market, such as Bangladesh. The experience learned in the home market can be applied in another market and can also greatly enhance the company's ability. This experience also enhances a company's ability when it knows its competitors as they can be present in some other markets. In case of Bangladesh, Telenor has good knowledge about three of its competitors (Malaysian Telecom, Sing Tel, and Warid Telecom) as they also have invested in other Asian markets, such as Thailand, Pakistan, and Malaysia, where Telenor has a strong position. This allows Telenor with greater insight of product, price, service, and marketing & distribution strategies of competitors. This unique opportunity of knowing competitors from before has enhanced Telenor's ability in positioning itself firmly in Bangladesh.

These above named advantages are those that don't arise from multinationality but are advantages that any firm may have over another company in the same location. But there could be some advantages which only come when the company is involved in many nations. By engaging in diversified regions will enhance the size of the mother company. The company with large size can achieve further cost advantage through centralising some of its functions such as R&D, marketing etc. Example could be Telenor's R&I in Norway is responsible for the development of new technology and services. This also gives the opportunity to the overseas subsidiaries to get instant access, which could also reduce the cost for its subsidiaries.

Being present in diversified regions helped the mother company like Telenor to gather valuable information about the market, which Telenor could use to develop its existing knowledge on its technologies and services as a telephone operator. Experience gained in Bangladesh lead Telenor to purchase licence in

neighbouring country Pakistan in 2004. There was an overwhelming belief within Telenor that this could not have been done without the rich experience gained in Bangladesh (Malaviya, 2004). Thus intellectual, managerial, and structural capital and knowledge gained in Bangladesh was a key determinant of this foray into Pakistan. Interestingly, the top management team in Pakistan was made up of Telenor managers from Norway, Hungary, Russia, and Bangladesh operation (Malaviya, 2004).

## 5.2 Location Advantages of Bangladesh

I have already introduced this country market and industry attractiveness assessment framework of Philippe Lasserre in chapter two. Using this framework as a guideline, a foreign firm can have better information about the location advantages. The reason for introducing this framework is to provide me with the information about the market, competition, incentive structure, and also resources of Bangladesh which are vital for any foreign company that wants to invest in Bangladesh specially in telecom. In this section, I will try to find what location advantages Bangladesh has to offer to a telecom company, which has already attracted six foreign investors in mobile sector and Telenor is one of them.

### 5.2.1 Market and other related information of Bangladesh

Population	147 million of which rural population 76.04 %, and density of population 800 per square kilometre
GDP (PPP)	US \$ 1561
GDP Growth Rate	6.7 % (in 2005)
Fixed Telephone line	1 per 100 people
Total Mobile subscriber	13.5 million of which Grameen Phone has currently 8.5 million
Mobile penetration rate	9 % in first quarter of 2006
Mobile subscriber growth rate	>100% per year

Sources: Telenor 2005 and CIA fact sheet on Bangladesh

The current state of telecom industry and information technology in Bangladesh is not as good as compared with developed nations like Norway. The government felt the need for improved telecommunication system, which lead in opening up the mobile sector. The state controlled fixed line operator Bangladesh Telegraph and Telephone (BTTB) still dominates the fixed line telephony business. But the government has started to privatise the fixed line telephony sector gradually since 1992 and as a result the government has

approved two privately owned fixed line telephony operators to build and run its network to provide telecommunications to 200 rural sub-districts (called as Uppezela) in southern and northern part of Bangladesh. They are now in the process of building their own networks and they have already begun to provide connections in some areas. Another company called WorldTel got license in 2001 to install fixed phones in the metropolitan area. WorldTel has started to provide phone connection in the capital. It has a license to build, own and operate PSTN telephone network in Dhaka, has initially started with a hundred thousand connections network. In the second phase, the company will provide another two hundred thousand connections. WorldTel will be providing a full range of telecommunications services.

But these new fixed lined operators as well as the other mobile operators has been struggling for interconnection with BTTB's fixed line phone subscribers. To improve this existing condition of interconnectivity, Bangladeshi government is seeking help from the World Bank to rehabilitate BTTB's existing network to facilitate interconnections between the private operators and BTTB's subscribers. When this will be solved, the market for fixed-line and mobile telephony is expected to show rapid growth for the foreseeable future. Although, BTTB has been able to add 60,000 fixed-lines to its network each year and now it has around 1 million fixed-phone lines, but it is not up to the growing demand for telephony. This failure of improving quality and increasing number of lines are due to fact that it has failed to draw fund from state as the Bangladeshi government has other important areas such as health care, education, poverty reduction etc, where it desperately needs funds. The Bangladeshi govt. has also failed to privatise the state control fixed-line operator (BTTB) for its internal politics, inefficiencies and corruptions of BTTB.

On the other hand, the market for mobile telephony is growing up with a rapid pace and the market driven force to the fact that the rapid economic growth which in turn affecting in contributing growing middle class specially in urban areas and together with the supply side effect that is the failure of the

government owned fixed line operator to provide additional lines with ever increasing demand. This led the telecommunication experts to expect that the present subscribers' base will turn into 22 million by the end of 2008, which is quite attracting news for the mobile operators. However, the landscape of Bangladesh is mainly flat and quite small country (144,000 square km.) with a population density of 800 per square km. This distinct features of Bangladesh made is easy for the mobile operators to cover the whole country with relatively low investment.

Despite the problem of interconnection, the mobile operators have been able to add more than 8.5 million GSM mobile users in a single year from July 2005 to June 2006, according to the latest figure of GSM Association. Bangladesh now ranks eighth among the top 10 Asian mobile markets in terms of adding net subscribers during January to March, 2006. The new customers mostly belong to the middle- to-lower income bracket as the operators have begun slashing their call and entry charges due to the increasing competition among the mobile operators. This increasing number of new subscribers is also effect of the availability of low cost handsets.

Now two billion people use GSM mobile phones worldwide. Asia Pacific region alone boasts 757.13 million GSM mobile users and the figure is fast growing. It has also been predicted that the next billion GSM customers are mostly coming from China, India, Pakistan, Indonesia, Vietnam, Thailand, Bangladesh and other similar Asian countries. That's why the telecom markets of these South Asian countries have been consistently thriving. But it is also regrettable for Bangladesh that more than 85 percent of the mobile phone users have no access to the largest fixed telephone operator BTTB, the state- owned fixed line telephone provider. The experts also complain that the government is draining public funds on impractical projects like VoIP platforms, but ignoring the country's fundamental telecoms needs. It is widely suggested that the government should also deploy reliable nationwide telecoms infrastructure and then ensure the private sector's equitable access to that resource. This is what

Pakistan, India and many other fast developing countries are doing and Bangladesh should waste no time to reinvent the wheel. In reality the changes are taking places in Bangladesh, but with very slow pace, which hampers rapid and further growth.

### **5.2.2 Competitions**

The intensity of the competitiveness that has been gaining momentum in the prospective Bangladeshi mobile market can be traced in the spending behaviour for promotional activities in different media by the different operators. These advertisements of mobile phone operators have spelled boom for the electronic and print media, but the media blitz at the same time has created confusion among the prospective buyers of the mobile because frequently the operators are bringing new packages with many more attractive offers, through languages of those promotions are tricky, which makes the buyers confused. But the young and more educated buyers are concerned and aware about this fact. All the five operators are trying hard to attract more subscribers to their network by offering many more new packages with value added services like validity time extension of prepaid customers, free SMS, free talking time, package price cuts, tariff cuts for special hours, and friends and family number option etc.

Despite the price competition from competitors, the market leader Grameen Phone of Bangladesh (GP), which has the wider coverage than any other competitors (currently covering 85% of Bangladesh) enjoys the largest market share of 63% ( subscribers base of 8.5 million in Bangladesh ) takes very few steps towards the price cuts. The other competitors are only offering services up to the districts (urban areas) only. Among the five mobile telephony service providing companies (excluding Warid Telecom) offering the services, only Grameen Phone has wider coverage in terms of land area and as well as services. Having an advantage of offering services almost all over the Bangladesh, GP is not taking any lead for price cut, but it is just following a different strategy. Grameen Phone is positioning itself not only through core voice services & SMS services, but it offers a number of value-added services. These include voice

messaging services, SMS, MMS, and data services via WAP. This gives Grameen Phone to earn a name of providing most advanced and up-to-date features in Bangladeshi market. In addition, Grameen Phone also offers GPRS in most of the country and EDGE in urban areas.

Despite the commercial interest in terms of revenues, profits, and growth, it also launched its village phone programme as a strategy of meeting social interest in terms of serving poor, rural, illiterate people who were often excluded from traditional markets, thus bridging the gap between the urban and rural areas. Through its Village Phone Programme (VPP), Grameen Telecom had more than 110,000 Village Phones in operation in some 44,000 villages around the country. During 1998-2000, the amount of the average monthly phone bill increased by a total of 137% - from \$60.75 to \$144.02 (Cohen, 2001). This was three to seven times the size of the average urban phone bill.

Grameen Phone is now taking an active role in the distribution channel for attracting more subscribers to its network. This is an obvious change in its distribution strategy during 2004. While the previous structure was based on few key dealers that managed all distribution to the point of sale (sale & after sales service shop), Grameen Phone is now distributing directly to the point of sale through regional distribution centres. This gives Grameen Phone the opportunity of reducing commission cost and as well as increased control at the end user point of sale & after sale services centers. It has also extended its sales office to the rural areas called 'Uppozela' or we can call it sub-districts (468 sub-districts/uppezelas in Bangladesh and each Uppozela is app. 20-25 square km.). All other mobile phone operators are only offering their services at districts (Urban areas, and there are 64 districts in Bangladesh), and this is due to the network coverage. The strategy of opening new sales offices and large area network coverage has paid off, which already has added further two million subscribers to the network during the first quarter of 2006 only.

Telenor had gained substantial experience in overseas operations by doing business in a distant geography and an unfamiliar market, which helped to build intellectual and structural capital for the future. Telenor had also enhanced its image and prestige by partnering with internationally acclaimed local partner, the Grameen Bank. This gained it invaluable public relations point, as world leaders (such as Bill Clinton) held up Grameen Phone as a model for sustainable developments (Malaviya, 2004). Finally, Grameen Phone enjoys the first movers advantages and also Telenor had chosen to be a local brand and positioning as Grameen Phone (a company of Grameen Group where Grameen Bank is a name of Trust and uncorrupted micro-credit financing institution in Bangladesh).

### **5.2.3 Incentive Structure**

Bangladesh remains one of the world's poorest, most densely populated, east developed countries. Bangladesh has just 1 million fixed-line telephony, or a teledensity near to 1%. This means that almost 99% of homes are without a connection. There is reportedly a four year waiting list for a fixed-line phone from the BTTB. By contrast, the mobile phone sector has taken off and has annual growth of more than 100% with a penetration rate of 9 % in 2006 (Quarterly Report, Telenor 2006). The telecommunication Regulatory Commission of Bangladesh (TRC) has been established by Bangladesh Govt. in 2001 and since then it is trying to reshape the country's telecom sectors. Effective telecoms regulatory regime is, however, the precondition in attracting new investments and also in boosting competition. The TRC has become merely an extension of department, which lacks the power to bring the change, and that is certainly not the case with India, Pakistan or Sri Lanka.

On the other hand, Bangladesh Telephone and Telegraph Board (BTTB), dominates in providing of fixed line phones, and it has been unsuccessful in attracting substantial investment fund because of its bureaucracy and inefficient management of the networks. The inefficiency of the fixed-line monopoly operator and the stranglehold over the fixed network limits the numbers of mobile channels that providers like Grameen Phone can connect to the fixed line

network. But recently, two of the companies have received the license for fixed line services and they are already in the process of building their own network. Another private company is in the process of building fixed line telephony for the capital city of Bangladesh, which I have already discussed. Upon completion of building the fixed line network, this will ease the interconnection problem a bit, which will help mobile phone operators to sell more connections which can be connected to the fixed line network.

Despite this negative aspect arising from the fixed-line operator, the government of Bangladesh has made significant progress in improving conditions relating to the establishment of joint ventures. The industrial policy of 1991, updated in 1999, guarantees equal treatment for local investment and their foreign partners. Although government permission is not required to set up joint ventures, there are other requirements that include the authorisation for licenses, permits from relevant authorities and registration with Board of Investment (BOI). The foreign Investment Act guarantees the right of foreign firms in joint ventures to remit profits in the form of dividends.

Political or economical upheaval or changes in laws or their application in Bangladesh may harm Telenor. For example, Bangladeshi Govt unexpectedly imposed a tax of US\$ 18 on each new SIM card connection in year 2004-05, which raised a huge concern among the mobile operators who thought that the new tax would pose a serious entry hurdle for low-income earners. But the sale of mobile phone connections had picked after an initial slowdown. The tax was revised to US\$ 13.50 in august in the same year in response to fierce demand from all operators. Another problem could be the fluctuations in the currency exchange rates between the Norwegian Krone and the currency of Bangladesh (Taka). During last year Norwegian Krone has been appreciated nearly 10% of its value. However, Telenor wants to mitigate the effect of fluctuations through foreign currency hedging, but there can be no guarantee that the effort will be successful.

#### **5.2.4 Resources**

Bangladesh has experienced a growth of 300% in the emergence of educational institutes specially in private sectors offering different educational programme for example ICT and telecommunication engineers, business and economics, engineers, doctors, law and other professional areas. There are number of foreign universities from US, UK, Australia, Canada, who are already offering quality education through joint ventures. These universities give a huge supply of well trained graduates and Telenor is taking opportunities through employing them with relatively very low wages. For example: two of my friends who are working in the mid-management after finishing their MBA from a UK based university get around NOK: 2000 a month, which reflects that how much cost advantages Telenor is enjoying by employing local employees.

### **5.3 Internalisation Process of Telenor**

The third leg of the eclectic paradigm – internalisation advantages – is based on the idea that, when the transaction costs of exploiting firm-specific assets through a market arrangement are high, the owner of the assets may choose to internalise the market transaction through FDI (Buckley & Casson, 1976). Firms engage in FDI when it is more beneficial for them to use their ownership advantages through an extension of their own value-adding activities rather than externalising them through licensing and similar contracts with other firms (Buckley & Casson, 1998). So we can say that internalisation could be an advantage, which is achieved through keeping the activities within the firms control rather than to sell the right to other firms. The main motives for internalisation may be that the firm may possess valuable technology, which needs to be protected, or may be to control the whole value chain through which it can implement its core business strategy without hindrances from local partners. This gives the firm to save time and money, which otherwise is needed to supervise the foreign firm if it allowed other options. On the other hand, internalising a foreign firm needs massive capital and other resources, which can sometime lead to higher cost. So the debate of whether to internalise or not, should have to be done keeping all the alternatives open.

#### **5.3.1 Telenor's Internalising Objective**

Having being deregulated in the 90's, Telenor is facing a stiff competition in the home market both in fixed and in mobile telephony sector. High mobile penetration rate of 78% in Norway, which can be interpreted as almost saturated, so there is few further growth opportunities for attracting new subscribers to the network and hence reduced revenues if and until further useful services are added to mobile telephone. Telenor is also losing its market share in fixed line telephony as a third party (other service providers) can access the fixed network owned by Telenor without any price discriminations. This is due the development of new technologies that is subsequently enhanced by the deregulations and reform in telecom sectors. Telenor is also not getting any encouraging news coming from the market about the future prospect of 3G

telephones, although it has limited investment in 3G telephony. These all factors compelled Telenor to look for international investment opportunities and since it had quite small balance sheet as compared with other mobile giants, such as Vodafone, Orange, T-mobile etc, so it opted for investing emerging market where the market is in the phase of growing, which is quite unconventional in the process of internalisation.

There could be four categories of internalisation objectives: to develop the market which can give the firm to achieve economy of scale, to access the critical resources, to capture the knowledge available in the country, and to set up a regional or global center for coordinating various objectives. Having the ownership advantages at disposal, Telenor is looking to access the market in emerging markets when those markets are being opened for foreign investment and especially when this sector in those developing countries have started to grow. This strategy of foreign investment often has given Telenor with the first mover advantages, and as well as low licence fees and hence low investment cost. Telenor could sell its technology but kept it internal in order to keep the innovative technology within and to protect it from being copied by the foreign competitor. Keeping the foreign subsidiary internal is optimal for Telenor and it is also easy to transfer the knowledge and technology between subsidiaries with relatively low cost.

Telenor is in the business of technology, which has certain characteristic that raise the reason to protect its ownership advantages. It takes time and money to develop and also the uncertainty around the future technological development. For Telenor, it wishes to keep the technological advantages within, which is one of the sources of Telenor's competitive advantages and also it wants to utilise it through controlling overseas subsidiaries. To mention here further, Telenor is still fighting for getting control with its local partner of VimpelCom in Russia and till now it hasn't succeed. VimpelCom is best known for the BeeLine trademark, one of Russia's most popular mobile operators. Telenor holds 26.6% of shares in VimpelCom, while Altim (previously named Alfa Telecom), the

telecoms arm of financial and industrial holding Alfa Group holds a 32.9% stake. The dispute between Altimio and Telenor is a long standing one and it has also been exaggerated as Telenor disagreed with the terms of VimpelCom's purchase of Ukrainian Radio Systems. VimpelCom signed a \$231 million deal to purchase Ukrainian Radio Systems in November 2005. Telenor was against the deal from the very start, saying the price was too high. Telenor's executives blocked the deal twice with the VimpelCom board. Later, EcoTelecom, a subsidiary of Alfa Group called an extraordinary shareholders' meeting to approve the deal. Altimio and Telenor also have stakes in Ukrainian mobile phone operator Kyivstar. At the time of writing, the problem has not been solved and Telenor is now threatening with sale option it has over VimpelCom.

Telenor was mainly based on Norway which has a population of 4.5 million only. Although it has recently invested in mobile sector in neighbouring countries such as Denmark and Sweden, still those two doesn't have large enough population to enjoy the economy of scale. In order to achieve that it got to expand beyond the Nordic region and must possess a certain size. If it can achieve the size through expansion, then it would be viable for Telenor to run some of the functions such as R & I (Research & Innovation) centrally to keep the cost down. Telenor has established its R & I for the company as a whole in Norway and this department is responsible for further development of innovative technologies and services. It has also opened its Center of Excellence (CoE) to enhance the knowledge sharing between the different subsidiaries and Grameen Phone it an active partner in its CoE.

Emerging markets gave the location advantages such as low tele-density, low penetration rate, high and growing demand for telephony, made Telenor to seek for strategic assets as well as it can lead to achieve the economy of scales. Other incentives like low wages of qualified personnel, favourable treatments from government such as non requirement of government approval for joint ventures and 100% remittance of profit, attracted Telenor to internalise its overseas subsidiaries like Grameen Phone. Another reason is that after the deregulation

pushed forward by EU, which compelled the Norwegian government to open the market for competition. Opening the market made Telenor to feel vulnerable as it was a small telephony operator offering services in Norway. It felt strongly to diversify the risk by investing in different countries and as well as Nordic and other region such as Sweden, Denmark, Eastern European countries, and Asian countries. Emerging markets are also rife with potential dangers that are rare in more developed countries. Risks endemic to emerging markets include rapid and dramatic fluctuations in exchange and interest rates, political turmoil, murky intellectual property regimes, unpredictable flip-flops in industrial policy, exposure to volatile commodity prices and uncertain access to capital (Donald, 2005).

### 5.3.2 Mode of Internalisation

Telenor as a telephone service operator had two options, either the sale of technology to a foreign firm, or to invest in foreign nations directly either alone or with a local partner. Telenor at the start of their foreign investment, it opted for the strategy of portfolio investment where it didn't bother to take control of the foreign subsidiaries. Soon after, it realised that it was hard to implement its core strategy without controlling its overseas subsidiaries, it then began to change its strategy of portfolio investment and started to buy majority stake for getting control over its foreign subsidiaries. In most of the countries, it had succeeded except VinpelCom in Russia.

Telenor could invest in foreign countries alone but it preferred to go with a local partner as it has got some advantages to it. Even through, there are some downsides of joint ventures. The experience of foreign companies in joint ventures has not always been always successful. Empirical evidence shows that about 50% of the joint ventures failed due to the following reasons.

- ◆ **The absence of strategic vision and failing to understand the local partner's strategic logic:** When a joint venture is launched quickly, or for purely defensive or opportunistic reasons, the foreign firm often fails

to evaluate the intension and capabilities of the local partner. In most cases, a through investigation would reveal the real intent of the local partner.

◆ **Insufficiently prepared staff and lack of organisational support:**

Unprepared expatriate managers who fail to understand their partner's and employees' logic can also create tensions, and damages the reputation of both the local partner as well the foreign partner. Local partners in emerging countries are often highly respected businessmen, and when they suffer what they see as inappropriate treatment at the hands of unsophisticated foreign staff, they quickly become disillusioned (Lasserre, 2003).

But the majority of investments in emerging market are done through joint ventures. This is due to the fact that foreign partners look for a local firm with capabilities in distribution, sales, local market know-how, and more importantly, contacts with decision makers and business networks. And in case of Grameen Phone, Telenor chose the right partner for Bangladesh, as Grameen Bank (sister company of Grameen Phone) is well established for its world renowned innovation of providing micro credit to poor without collateral as a tool for poverty reduction. I hope that Telenor had devoted enough resources, time, and effort while choosing Grameen Phone as a local partner and it got the right one. It can also be proved by the company statement that Telenor claims Grameen Phone as one of the best partners they are currently working with.

### **5.3.3 Timing of Internalisation**

The timing of entry is contingent upon the window of opportunity as well as the type of risk the company is willing to take. For market-based objectives, a window of opportunity is open when the demand starts to become significant and the competitive context is not yet well established (Lasserre, 2003). To me, Telenor had made the right timing decision as those market are growing with rapid force and the demand doesn't seem to fall in near future. The joint venture with the Telenor gave Grameen Phone to take the first mover advantages.

Although there is advantages and disadvantages of being first, but the empirical evidence shows that the first mover can have a strong competitive advantage, which can help to be the market leader. This is the case for Grameen Phone as it dominates the market with 63% share and its nearest competitor Aktel Mobile is having 23%. Another factor is that Telenor with the small balance sheet may not be able to enter into these markets in the near future when these markets will be in the maturity phase and unlike the giants, who prefer to wait and see, and has got capability in terms of capital to enter in mature markets through buying, merger or acquisition of an existing company.

## 6. Conclusion

The policy of opening up the market for mobile telephony by the developing nations like Bangladesh raise the issue that some of these nations have poor infrastructure in case of fixed-line telephony and how come there will be viability in investing mobile telephony. The government owned fixed-line telecom monopolies had failed to invest or even attract foreign investments for modern technology. Lack of openness of economy and inefficiency & bad management of network are among the factors for this condition. But the increasing demand for telephony service in Bangladesh compelled the governments to open the market for foreign investors for mobile service operators in 1997 and recently the government has also started to open the fixed line telephony, but failed to privatise the state owned BTTB for internal politics corruptions, and bureaucracy.

Given the population, demand and lagging infrastructure of telecommunication in Bangladesh, it is clear that the cellular market is growing rapidly and far from the saturation point. Seeing the opportunity, six foreign mobile telephony operators such as Telenor have already invested and five of them are offering its service in Bangladesh. Before launching the mobile phones by Grameen Phone, the existence of demand was questioned, but now that has proved to be wrong. Further, due to the mature cellular technology cellular equipments such as mobile handsets are becoming more affordable, and this makes the emerging market with potential for further growth in terms of increasing subscribers. It has also been documented that wireless network technologies are currently less expensive in terms of area coverage, and Telenor is taking advantages of that through investing only in mobile technology.

The other economic reason on the part of Telenor entering into joint ventures appears to be high economic return from the vast potential market in Bangladesh. Unlike other global telecom giants, I am convinced that Telenor is opting for long term investment strategy and became aware of the merit of entering into emerging market such as Bangladesh. So Telenor's strategy was to

invest in such countries where it needed low investment, and has future growth opportunities. It entered in Bangladesh keeping in mind with this vision, and it succeed as Grameen Phone has started to make its first monthly profit, right in the fourth year of initial investment. However, it entered through the partnership with Grameen Phone to minimise the risk and uncertainties associated with operating alone. Grameen phone appeared to be the ideal candidate in this context. Especially with its optical fibber network, efficient bill collection, information about local market, influence on government and credible business reputation, the Grameen phone created a win-win situation for Telenor. Grameen Phone served as a test case for Telenor for entering into emerging markets.

In an interview with Reuter News Network on 17<sup>th</sup> October, 2006, Erik Aas, CEO of Grameen Phone told that market for mobile telephony in Bangladesh will triple the number of subscribers to 45-50 million users, or about 30 percent penetration within three years. The experts are also predicting in line with the CEO comments about the market and saying that it would be another five to ten years for Bangladeshi mobile market to move from its current growth phase to a maturity phase. To accommodate the change, Grameen Phone has to be prepared for the future and maintain its leadership position in an increasingly competitive market, as there are already five other joint venture mobile operators and a state owned operator offering mobile telephony. Now Grameen Phone needs to shift its focus and style from that of a start-up, to a more traditional multinational business operation. This would mean that Grameen Phone needs to reduce its expenditure on infrastructure building as it had done for network coverage and increase its expenditure on demand stimulation such as advertising & marketing expenditure, as the market is getting more competitive. Telenor is now adopting this strategy as we see that Grameen Phone is taking different promotional activities such as it is sponsoring the national cricket team of Bangladesh, which brought proud for the nation.

Other challenges for Telenor may come from as there lacks strong, stable legal & regulatory framework in developing nations like Bangladesh. The unfamiliar

business practices such as corruptions, management style, and if we have a look of those dimensions (Individualism/collectivism, power distance, uncertainty avoidance, and masculinity/femininity) of Hofstede, then we will find enormous difference between Norway and other developing nations in all of its four dimensions.

One might have the impression that the world is growing towards a global culture; however this is not the case. Every human being thinks according to his or her culturally defined thinking pattern. So how important are cultural differences to organisational effectiveness. Some observers of international organisation behaviour say 'not at all' while others claim that cultural differences are and will remain extremely important. The first group, those adherents of the cultural convergence perspective, argue that organisational characteristics across nations are becoming free from the particularities of specific cultures. Others argue that organisations are culture bound, rather than culture free, and are remaining so. I hope Telenor is aware of these cultural, economical, and political issues as it has got investments mainly in developing nations.

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