From national monopoly to Multinational Corporation: how regulation shaped the road towards telecommunications internationalization

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From national monopoly to Multinational Corporation: how regulation shaped the road towards telecommunications internationalization

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Abstract

One of the consequences of major regulatory reform of the telecommunications sector from the end of the 1970s – particularly, privatization, liberalization and deregulation – was the establishment of a new business environment which permitted former national telecommunications monopolies to expand internationally. From the 1990s, a number of these firms, particularly those based in Europe, joined the rankings of the world’s leading Multinational Corporations. Their internationalization was uneven, however: while some firms internationalised strongly, others went abroad much slower. This article explores how the regulatory framework within which telecommunications incumbents evolved over the long-term helped shape their subsequent, uneven, paths to internationalization. Two cases representing ‘maximum variation’ are selected: Telefónica, whose early and unrelenting expansion transformed it into one of the world’s most international of Multinational Corporations, and BT, whose international ventures failed and, with decline domestic shares, forced the firm to partial de-internationalization, becoming the least international of the large European incumbents. Long-term ownership, access to capital, management style and exposure to liberalization strongly influenced firms’ approaches to internationalization.

Keywords: Regulation, telecommunications, internationalization, Europe, privatization, liberalization, Multinational Corporations.

Introduction

Across half a century, from the interwar period to the 1980s, the organization of telecommunications systems across Europe reached considerable convergence (Millward, 2005: 245; Noam, 1992). Telecommunications had, by this time, been largely organised into national networks, and were operated by the State on a monopoly basis, often under the auspices of the Post, Telegraph and Telephone (PTT), usually as part of the Ministry of Post and Telecommunications (Bauer, 2010). Switching equipment was generally provided by private electrical equipment manufacturers, and terminal equipment by the PTT. The most conspicuous exception to this pattern of public involvement was Spain, where the Primo de Rivera dictator had allowed the US Multinational Corporation, ITT, to set up, control and operate from 1924 a private monopoly under the Spanish name Compañía Telefónica Nacional de España, known today as Telefónica (Comín & Díaz-Fuentes, 2004). Other exceptions included Italy and Scandinavia, where the State only owned the trunk networks (Noam, 1992). Generally speaking, under State ownership and control, the management style of telecommunications monopolies was inward-looking, the priority being to provide national telecommunications services to users on a universal service basis (Clifton & Díaz-Fuentes, 2010a, 2010b). Millward (2005, 2010) provides a mix of political, legal, technological and economic reasons to explain the common economic organization of telecommunications across Europe. If, originally, the potential for telecommunications was unclear, once their importance was fully recognised, governments sought to forge, and then, control, national networks for military and strategic objectives. Governments were also best positioned to resolve rights of way issues for network development. Monopoly operation of the national networks was facilitated by the relative simplicity of the technology – voice transmission to a single handset - and was, moreover, justified since the sector was understood to exhibit natural monopoly characteristics and network externalities. In the three decades previously, as telecommunications networks were evolving, multiple sets of conflicting interests had intervened in their development – geographically (local, regional and national) and through investment (private/public, domestic/foreign) – but these tensions were largely relaxed as the State assumed ownership and control.

Regulatory change, which, though somewhat unevenly and not always completely, undid this former arrangement, commenced from the end of the 1970s. Technological change such as the emergence of new customer premises equipment (computers, modems, multiple telephone handsets, fax and telex terminals) and value added services (mobile networks and phones, email, fax and audiovisual conferences) was a key driver of this shift. As telecommunications equipment became more important to users and, since it could lay no claim to natural monopoly status, pressure increased from the business sector, challenging the continued monopoly status of telecommunications and PTO privileges (Millward, 2005: 252, Noam, 1992: 6). Major regulatory changes were introduced to reorganise the sector: privatization, liberalization and deregulation. Responsibility for implementing these changes was divided between the European, national and local authorities. In the context of the evolving European project, which

1 Telefónica was originally called the Compañía Telefónica Nacional de España until the 1980s, when, in a re-branding exercise, this was shortened to Telefónica. For convenience, Telefónica will be used here.
aimed to forge a Single Market by 1992, the European Commission was responsible for implementing liberalization and competition. Privatization was a decision for national or local authorities, since the European Commission was bound to remain neutral on issues of ownership (Clifton, Comín & Díaz-Fuentes, 2003). National governments were also responsible for the establishment of independent regulatory agencies to oversee telecommunications reform, since the formation of an European-level telecommunications regulatory agency was blocked by the 1958 Meroni doctrine, prohibiting as it did the upward delegation of decision-making of this type except that ratified by Treaty amendment (Pelkmans, 2001: 455).

Now, the unravelling of the previous regulatory framework changed the business environment of national telecommunications monopolies, opening up new options for their managers. Under state ownership and control, expansion into foreign markets had been neither feasible nor necessarily even desirable (Clifton, Comín & Díaz-Fuentes, 2007). The unfolding new regulatory framework opened the door to enterprise expansion abroad: indeed, many telecommunications enterprises seized the opportunity to internationalise swiftly and extensively. As a consequence, some of Europe’s former national telecommunications monopolies emerged among the world’s largest Multinational Corporations as measured by the United Nations Conference on Trade and Development (United Nations Conference on Trade and Development [UNCTAD], 2004, 2008). Resulting shifts in the economic organization of the sector towards greater, albeit uneven, privatization, competition and internationalization, were partially reminiscent of the way in which telecommunications were organised in the first few decades from the end of the nineteenth century to around 1913, differing in that, in this new phase, the former telecommunications monopolies themselves became protagonists of change, leading the bids to compete in Mergers and acquisition opportunities. This pattern mirrors closely the findings of Hausman, Hertner and Wilkins (2009) who contrast the role of electricity enterprises in the first and second wave of the sector’s internationalization.

But firms’ paths from national monopolies to Multinational Corporations varied. While some incumbents, both large, such as Telefónica, France Télécom, Deutsche Telekom, and smaller, including TeleSonera, Telenor and Tele Danmark, emerged as successful, highly internationalised Multinational Corporations, others proved slower to go abroad, internationalizing only modestly, whilst others met with failure, such as BT which, effectively, de-internationalized. Whilst scholars agree that regulatory change (privatization, liberalization and deregulation) of the telecommunications sector were prerequisites for the ensuing internationalization of the former telecommunications monopolies (Bonardi, 2004; Sarkar et al., 1999), there is disagreement over why some firms internationalised much more vigorously than others. This topic is of considerable interest to scholars of business and policy history, and has important consequences for Europe’s economic development. In this light, this article seeks to examine how regulation shaped, over the long-term, the paths taken by former telecommunications monopolies towards their transformation into huge Multinational Corporations. In the second section, we present the argument proposed by international business scholars which asserts that variations in the extent of internationalization by former telecommunications monopolies can be explained by short-term asymmetries in national regulatory structures. Highlights of our results which examine data on the extent of internationalization at firm level and indicators of regulation at country level over the short-term are presented, and our rejection of this argument is summarised. Instead, the
extent of enterprise internationalization is best explained at the firm level (Clifton, Díaz-Fuentes & Revuelta, 2010). Over the long-term, however, regulatory structures did influence enterprises and their paths towards becoming Multinational Corporations. To illustrate, case studies are used. Following Flyvberg (2006), two case studies representing ‘maximum variation’ are selected: Telefónica, whose bold, early, unrelenting and deep internationalization into Latin America and, later, Europe, transformed it into one of the most international of former telecommunications monopolies today; and BT, whose internationalization strategy, mainly comprising global alliances with North American and other peers met with failure, and its ultimate de-internationalization, leading to a more modest international presence. We show in particular how enterprise ownership, rules on access to capital, management style and exposure to liberalization all played a part in shaping firm behaviour, influencing its path to internationalization.

Understanding how regulation shaped internationalization

In the post-war decades, the bulk of the literature by international business scholars seeking explain firm internationalization built their theories largely around explaining those developments occurring to firms belonging to the manufacturing and oil sectors. This bias reflected the profile of Multinational Corporations, dominated as it was by these sectors (UNCTAD, multiple years). Of course, Multinational Corporations in telecommunications had existed for over a century: to cite just three giants, ITT, founded in 1920, became the main international telecommunications company of the United States; Cable & Wireless, created in 1934 on the merging of the Eastern and Associated Telegraphy Company & Wireless Telegraph Company, emerged as the international communications firm of the UK Post Office after its nationalization in the post-war period; and Swedish Ericsson also embarked on internationalization from the beginning of the twentieth century, offering telephone services in Latin American cities, such as in Mexico City from 1905 until, after fighting with its rival, ITT, saw all the network merge into Telmex in 1947 (Clifton, 2000). But these Multinational Corporations had not evolved from national monopolies; indeed, they often competed harder abroad than in their home markets. Broadly speaking, national telecommunications monopolies had little or no international presence during this period.

This situation changed dramatically from the 1990s, when a significant number of national incumbents emerged as huge Multinational Corporations as a consequence of regulatory reform from the 1970s. Parallel developments occurred in other sectors undergoing regulatory change - electricity, gas, water and transportation – though telecommunications was the most dramatic (UNCTAD, 2008). In response, international business scholars turned to re-develop existing internationalization theories in the light of the particular economic characteristics of those utilities under analysis. In the case of telecommunications, scholars emphasised that the sector exhibited network economies and economies of scale, and also pointed out that investment opportunities in telecommunications tended to be large, rare or even once-off, high-risk and involved moving into spatially embedded networks. Concurring that regulatory reform, particularly privatization and liberalization, together with these economic features were central to understanding the internationalization of the former national telecommunications monopolies, they integrated these policy and economic idiosyncrasies into their analyses (Sarkar et al., 1999: 368, Bonardi, 2004).
While scholars agreed that privatization and liberalization had been essential in establishing the conditions for the former telecommunications monopolies to internationalise, explanation was needed on the dynamics and pace of this process. Why had some former monopolies embarked on a deep, unrelenting internationalization drive, whilst others moved more slowly? Why were some internationalization strategies successful, whilst other strategies failed repeatedly, resulting in a retreat, or, de-internationalization? Attention was placed on trying to explain the different extent of firm internationalization. Among these studies, of particular importance is Bonardi (2004) and Sarkar et al. (1999) who proposed that telecommunications enterprises would internationalise at different paces depending on the differences in the timing and quality of privatization and liberalization policies across countries. Their explanation was as follows. Because Mergers and acquisitions in telecommunications are usually rare, risky, expensive and politically complex, those firms with significant political involvement and support have an advantage. Because governments tend to intervene more actively where levels of public ownership are higher, firms with more public ownership (or, less privatization) would easier access ‘insider’ information about the deals, and enjoy more support, knowledge and experience from politicians as ‘diplomats’ of the transactions. More privatization, logically, meant the firm was external to ‘insider’ deals, perhaps making their international expansion more complex.

A relationship between liberalization and internationalization was also established. Scholars including Bonardi (2004), Chari and Gupta (2008), Haar and Jones (2008) and Sarkar et al. (1999) argued that governments might opt (sometimes under pressure from the monopoly itself) to implement liberalization slowly, incorrectly or partially, in order to give breathing time to the ‘national champion’ to adjust to the changing circumstances, whilst providing it with monopoly rents in order to support their undertaking of risky international operations. Therefore, those telecommunications monopolies facing slower or less extensive pressures to liberalize at home would be better positioned to internationalise more. Even in the European context, despite the fact that directives governed liberalization, it was unlikely that all member states would implement liberalization identically, regarding its timing, quality and extent. Some governments, including the UK, had introduced liberalization before European liberalization directives were passed, whilst other governments such as Ireland, Greece and Portugal used formal extensions. To sum up, the argument claims that those former telecommunications monopolies least exposed to privatization and liberalization in their national settings would be those expected to internationalise most.

A straightforward means of testing these hypotheses is to assemble data on incumbent internationalization at the firm level, and privatization and liberalization at the country level, and conduct regression analyses. However, on so doing, it was found that the extent of internationalization is not determined by relative delays in privatization or liberalization and both hypotheses were thus rejected (Clifton, Díaz-Fuentes & Revuelta, 2010). Massive internationalization was done both by firms that had experienced significant inward internationalization pressures, as well as those who were based in countries where liberalization lagged behind. Similarly, firms with different levels of privatization went international successfully. Both smaller and larger
telecommunications incumbents proved able to emerge as Multinational Corporations. The extent of internationalization is, therefore, best explained at firm level.2

The diversity of the pace and timing of internationalization activities of Europe’s telecommunications incumbents is shown on Table 1. Of the large incumbents, by 2007, Telefónica was the most international, generating 64 percent of its total sales abroad, followed by Deutsche Telekom and France Télécom, at 53 and 50 percent respectively. BT was the least international of the large incumbents, reaching only 15 percent. As regards timing, Telefónica was the first mover of the large incumbents, producing over 40 percent of its sales abroad by the end of the 1990s, followed by its German and French peers. BT was slower to go abroad, then, from 2002, it de-internationalised significantly, to return again to overseas expansion, but slowly. Being a smaller incumbent proved no barrier to strong internationalization: by 2008, Telenor and TeliaSonera had proved particularly successful in their ventures, whilst others, such as OTE, Swisscom and TeleDanmark, internationalized more slowly.

Table 1. European telecom incumbents ranked by revenue: international sales as percentage of total, 1999-2007

<table>
<thead>
<tr>
<th>Company</th>
<th>Country</th>
<th>1999</th>
<th>2001</th>
<th>2003</th>
<th>2005</th>
<th>2007</th>
<th>Revenues USD Millions 2007-08</th>
</tr>
</thead>
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<tr>
<td>Deutsche Telekom</td>
<td>Germany</td>
<td>11.4</td>
<td>27.3</td>
<td>37.9</td>
<td>42.6</td>
<td>50.9</td>
<td>85 638</td>
</tr>
<tr>
<td>Telefónica</td>
<td>Spain</td>
<td>41.3</td>
<td>51.5</td>
<td>37.4</td>
<td>47.5</td>
<td>64.2</td>
<td>77 316</td>
</tr>
<tr>
<td>France Telecom</td>
<td>France</td>
<td>13.3</td>
<td>35.8</td>
<td>41.3</td>
<td>42.7</td>
<td>50.0</td>
<td>72 548</td>
</tr>
<tr>
<td>Telecom Italia</td>
<td>Italy</td>
<td>5.9</td>
<td>20.4</td>
<td>19.6</td>
<td>20.6</td>
<td>29.3</td>
<td>42 863</td>
</tr>
<tr>
<td>BT</td>
<td>United Kingdom</td>
<td>7.1</td>
<td>8.7</td>
<td>6.4</td>
<td>8.5</td>
<td>14.7</td>
<td>41 408</td>
</tr>
<tr>
<td>KPN Telecom</td>
<td>Netherlands</td>
<td>9.5</td>
<td>22.0</td>
<td>23.0</td>
<td>28.6</td>
<td>31.4</td>
<td>17 070</td>
</tr>
<tr>
<td>Telenor</td>
<td>Norway</td>
<td>15.4</td>
<td>10.0</td>
<td>36.8</td>
<td>51.3</td>
<td>65.5</td>
<td>15 780</td>
</tr>
<tr>
<td>TeliaSonera</td>
<td>Sweden</td>
<td>10.3</td>
<td>19.0</td>
<td>48.6</td>
<td>55.6</td>
<td>62.6</td>
<td>14 252</td>
</tr>
<tr>
<td>Swisscom</td>
<td>Switzerland</td>
<td>9.1</td>
<td>29.9</td>
<td>30.9</td>
<td>0.6</td>
<td>15.1</td>
<td>9 241</td>
</tr>
<tr>
<td>OTE</td>
<td>Greece</td>
<td>0.5</td>
<td>1.9</td>
<td>19.3</td>
<td>24.5</td>
<td>25.5</td>
<td>8 657</td>
</tr>
<tr>
<td>Portugal Telecom</td>
<td>Portugal</td>
<td>8.8</td>
<td>24.5</td>
<td>24.0</td>
<td>34.3</td>
<td>44.7</td>
<td>8 422</td>
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<td>TDC</td>
<td>Denmark</td>
<td>41.8</td>
<td>55.4</td>
<td>45.3</td>
<td>49.0</td>
<td>37.0</td>
<td>7 228</td>
</tr>
<tr>
<td>Telekom Austria</td>
<td>Austria</td>
<td>0.0</td>
<td>7.1</td>
<td>11.0</td>
<td>25.5</td>
<td>35.9</td>
<td>6 738</td>
</tr>
</tbody>
</table>

**average** 16.5 29.2 31.8 36.3 45.5


Short-term differences in national regulatory frameworks do not explain these internationalization patterns. The best indicators on the evolution of national regulation are constructed by the OECD (undated). Here, privatization is simply measured as the proportion of incumbent shares owned by the government, whilst liberalization is understood in two ways. First, it is measured by whether liberalization legislation has been introduced (white for monopoly, grey for duopoly and dark grey for competition). Second, is the market share of new entrants in trunk telephony (‘real’ competition)? The two liberalization indicators are superimposed on Table 2. From the post-war to 1995, telecommunications was organised as a monopoly across Europe, with the exception of the UK, where a duopoly was established from 1984 to 1991, in which Mercury gained access to less than 20 percent of the market. Private sector involvement did not start

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2 Detailed results of the correlation analysis can be found in more detail in Clifton, Díaz-Fuentes and Revuelta (2010).
with BT, as is commonly stated, but with Telefónica, which was actually established in 1924 as a private company, as is discussed later in the paper. By 1997, BT, Telefónica and TeleDanmark were fully privatized whilst average government ownership in the EU-15 was 66 percent. The UK was the liberalizing pioneer, followed by Denmark, Finland and Sweden, from 1995, the Netherlands from 1996 and France from 1997, while nine other countries liberalised in time with the deadline set by the European Commission (1998-2001), including Spain, which had already introduced a weak duopoly from 1995. Despite this, Telefónica dominated its home market more securely than any of its peers, Spain having the lowest market penetration of new entrants in the trunk market.

How, then, can the different extents of incumbent internationalization be accounted for?

Table 2. Regulation of European telecommunications: liberalization, market competition and privatization, 1975-2007

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<td>54</td>
<td>46</td>
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Liberalization framework: 
Monopoly | Duopoly | Competition
Market % : What is the market share of new entrants in the trunk telephony market
Privat. %: What percentage of shares in the incumbent are owned by government?

Source: OECD (undated)
Given our findings that internationalization is best explained at firm level, one option is to conduct detailed case studies of individual incumbents and analyse how factors such as privatization and liberalization shaped the firm’s approach to internationalization. Following Flyvberg (2006), we design our case study using the ‘maximum variation’ strategy, whereby cases are selected that are the most similar regarding the main factors under examination bar that factor which needs explanation. It is therefore of interest to analyse Telefónica, whose early, aggressive and unrelenting expansion transformed it into one of the most international of incumbents today; and BT, whose hesitant and troubled ventures abroad led to its ultimate de-internationalization, and a relatively modest international presence. Telefónica and BT represent large incumbents, both were exposed earlier on to privatization than the other large incumbents, and both were subject to timely or premature liberalization policies. This is done in the next section.

**Longer-term regulation and incumbent internationalization**

This section aims to shed light on how longer-term regulation influenced Telefónica’s and BT’s approach to the opportunities opened to them by regulatory change, particularly, their different paths to becoming Multinational Corporations. In order to do so, the previously presented data on firm internationalization, and country liberalization and privatization is supplemented with recently published important business history studies on both firms (Calvo, 2010; Parker, 2009), as well as comparative historical and economic studies of utilities and Multinationals in Europe, company annual reports and other secondary material.

**Telefónica**

By the 1950s, Telefónica had emerged as Spain’s largest firm but, by the 1990s, it had emerged as a leading world Multinational Corporation (UNCTAD, 2008). Historians have argued that Telefónica represents an exceptional case of business organization in Europe (Calvo, 2010). Three major, interrelated, features help explain its distinctiveness over the long term, particularly vis-à-vis its European peers: firstly, its origins as a private, foreign owned and controlled firm; secondly, its management style, which closer resembled a private than a public enterprise; and thirdly, its relatively fluid access to credit and the stock market. Analysis of Telefónica is divided into three parts: origins, access to finance, and the road to internationalization.

*Born a foreign-owned and controlled private monopoly.* The origins of today’s Telefónica go back to 1924 when, following the coup d’état in 1923, General Primo de Rivera granted a twenty-year contract to the recently founded Telefónica to operate the national telecommunications network and supply its equipment on a private monopoly basis. Telefónica had been founded just a few months before the coup and, despite having a Spanish name and its inclusion of well-known Spanish industrialists and bankers on its board, it was actually controlled by the emerging United States Multinational Corporation, ITT, working in conjunction with Spanish banks Urquijo and Hispano Americano (Álvaro, 2008; Comín & Gálvez, 2006: 119). ITT, in turn, had been established in 1920 by the Behn brothers who had merged two small telecommunications firms in Cuba and Puerto Rico. The ambitious brothers ‘dreamed of achieving overseas what AT&T had accomplished in the US’ (Wilkins, 1974) and Telefónica became ‘the jewel in ITT’s communication empire’ (Little, 1979), facilitating ITT’s entrance into Europe, and bolstering its stature as the world’s leading
telecommunications Multinational Corporation by the end of the 1920s (Sobel, 2000). Lacking technological capabilities of its potential competitors (AT&T owned Western Electric whilst Ericsson, Siemens-Halske and New Antwerp Telephone and Electrical Works dominated European markets), the Behns acquired International Western Electric company, the international subsidiary of AT&T and Western Electric, renaming it International Standard Electric Company, and Standard Électrica, in Spain (Wilkins, 1974). By so doing, they diversified their business to manufacturing, in addition to sealing control over network and equipment provision to the Spanish market.3 ITT was a key player in the ‘Americanization’ of Europe (Zeitlin and Herrigel, 2004; Schrotter, 2005), but Spain represented an extreme case, as most of ITT’s investment in Europe was concentrated in the telecommunications manufacturing.

With the Civil War over, Telefónica’s ownership changed. The Franco dictatorship immediately introduced tighter restrictions on FDI and Multinationals, with the 1939 law specifying a 75% quota of Spanish national participation for companies (Wilkins, 1974). Many US Multinationals, including ITT, found the political situation so complex and volatile that they sought to exit Spain (Alvaro 2007, 2008). When Telefónica’s contract expired in 1944, the government issued a decree placing the majority of stock in Spanish hands. So, despite having supported the fascists and the Nazi regime during the Civil War, the Behn brothers did not receive preferential treatment from the dictatorship (Little, 1979). Telefónica was nationalised in May 1945. The State took just over half of ITT’s 80 percent stock; 12 percent went to the Central Bank, Banco de España, and the rest was split between 700,000 smaller shareholders. ITT retained the right to supply equipment on a monopoly basis, a privilege that would continue until the 1980s. ITT would, anyway, shift away from service and towards manufacturing provision (Sobel, 2000: 7, 117).

Though Telefónica was nationalised whilst retaining monopoly privileges, as so many other telecommunications enterprises in Europe, the way in which it was nationalised differed to most of its peers. Nationalisation was never total; rather, Telefónica remained a mixed public-private ownership until its full privatization in the 1990s. Comín and Gálvez (2006: 121) referred to this process as ‘naturalization’, given the emphasis on indigenous ownership, whether private or public. This arrangement had important consequences for Telefónica’s management style, which reflected conflicts of interest between private shareholders and public service investment. Indeed, Telefónica was managed more along the lines of a private business than a public utility. Unlike most of its European counterparts, it was never run as part of the Ministry or the Post Office. Instead, the regime colluded with private interests in the board (banks and ITT as manufacturer) at the expense of other shareholders. The regime appointed Telefónica’s president, who decided on strategy, whilst the firm was organised according to clear functional divisions, with business managers reporting to the board and shareholders. Managers enjoyed high levels of autonomy.

Financing Telefónica. Thanks to its ownership characteristics, Telefónica became very successful at generating finance through public offerings. Between 1924 and 1966, fourteen public offerings were made, attracting a total of 1.4 billion pesetas in shares

3 Little (1979) describes the ‘wheeling and dealing’ between the Behn brothers and highly-placed Spanish officials and US Ambassadors to favour ITT’s successful control of the telecommunications market.
(Calvo, 2010). Between 1950 and 1980, Telefónica leveraged external bank borrowing and self finance to launch new share issues. Its mixed ownership limited additional share emissions because the State was contractually obliged to purchase a percentage of issued shares (Calvo, 2010: 261-2). From the mid-1960s, what became an infamous media campaign on Spanish television promoted popular capitalism through the sales of so-called Matildes, named after the girlfriend of the advert’s protagonist, who tried to use his ownership of Telefónica shares as a means of demonstrating his prowess and credentials as a husband (Rodríguez, 2005). In reality, however, the rate of return and dividends were modest (6.74 percent in 1950 to 8.72 percent in 1977). The price of Telefónica shares remained stable until 1973; indeed, investing in Telefónica was considered so safe that shares were nicknamed ‘widow’s shares’ in Spain, and categorized as ‘blue chip’ on the stock markets. However, after reaching a peak of 490 pesetas per share in 1973, their value plummeted to a low of 84.5 pesetas over the next four years, in parallel with the international economic crisis and the collapse of the Spanish stock market as the Franco regime came to an end.

The road to internationalization. The democratic transition (1976-1982) marked a new phase in Telefónica’s evolution, which was consolidated when Spain joined the European Community in 1986 (Comín, 2008). After accession, Spain would be forced to adopt Community rules on anti-trust and market competition. Even though European reforms would not affect telecommunications until the 1990s, and privatization was not a competence of the European Commission, the Spanish government embarked on industrial restructuring and partial privatization in the quest for improved performance. One main objective of the first Socialist governments (1982-1996) was to improve the management of monopolies, including Telefónica, partly, through its policy of partial privatization. The aim was to retain public enterprises only in those sectors where their activity was considered strategic and there was some prospect of survival. The privatization of public enterprises got under way from the mid-1980s when minority share packages of profitable public enterprises, including Telefónica, Repsol, Endesa and Argentaria, were placed in national and international stock markets (Comín, 2008).

As in the rest of Europe, the Spanish government recognised that significant investment was required to adapt to new communication technologies and to improve waiting lists for connections and service quality. At the end of 1982, Socialist MP Luis Solana was appointed president of Telefónica. Solana had long been an outspoken critic of Telefónica’s management from the opposition, particularly its technological dependence on ITT (Solana, 1979). Solana broke the long-standing technological dependence on Standard Eléctrica, by introducing new policies on equipment acquisition and technology transfer. He publicly accused Standard Eléctrica of overpricing (El País, 1983), whilst because ITT was diversifying away from telecommunications equipment provision to other businesses, the technology it supplied was in decline (López, 2003). A breakthrough towards internationalization and further privatization occurred in 1985, when Telefónica became the first Spanish enterprise to be listed on the London Stock Exchange and other European markets. Telefónica embarked on various R&D and export-promotion projects, in addition to joint ventures and cooperative agreements involving industrial production and technology transfer. In 1986, strategic agreements

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4 ITT was considering selling off Standard Eléctrica (El País, 8 January, 1981), and did so in 1988 to Alcatel NV, a subsidiary of the French publicly owned Multinational Compagnie Générale d'Électricité.
and joint ventures were established with various international firms, including AT&T Technologies, SysScan, Olivetti, Brown Boveri, Philips, Saab-Scania, Telfin and Fujitsu. In June 1997, the government launched a public offering of 6 percent in the New York Stock Exchange, reducing State ownership from 38 to 32 percent. Its trajectory of attracting finance reduced the State burden to secure infrastructure investment finance. So, during the 1980s, whilst most European telecommunications enterprises - except for British Telecom - were still State-owned, Telefónica was subject to international external discipline through flotation in international stock markets. The aim behind privatization was to have Telefónica listed in international stock markets, hence facilitating the finance of its international expansion without affecting the public budget (Bell & Trillas, 2005).

Solana was replaced by Cándido Velázquez, former president of Tabacalera, another historical monopoly, who embarked on a new phase of corporate internationalization from 1989. Telefónica targeted acquiring telecommunications enterprises put up for sale in the aftermath of the debt crisis in Latin America, many of which became privatized monopolies (Ramamurti, 2006). Though Telefónica would later liberalize in line with European telecommunications directives, it is notable how its earlier acquisitions were achieved as a national monopoly. Telefónica acquired controlling stakes in Compañía Telefónica de Chile and Telefónica Argentina SA in 1990, and bought stakes in Compañía Anónima de Teléfonos de Venezuela and Telefónica de Puerto Rico in 1991. In 1994, it bought participations in Colombian COCELCO and Telefónica de Perú and, in 1996, in Brasilian Companhia Riograndense de Telecomunicações. To manage these International acquisitions, Telefónica International SA (TISA) was set up in 1994, becoming Telefónica’s largest subsidiary. At the same time, Telefónica sought to develop international alliances to head off hostile takeovers and to gain momentum for expansion. Most of the strategic alliances in which Telefónica was involved were of a protective nature, between small and medium-sized enterprises. In 1993, Telefónica joined the UNISOURCE alliance along with KPN, Telia, Swiss Telecom, and AT&T Worldpartners. TISA remained outside of UNISOURCE since it was negotiating an agreement with Concert (BT 75 percent, MCI 25 percent). AT&T questioned conflicts of interest between Telefónica in UNISOURCE and TISA in Concert; in any case, neither alliance was to last.

With the accession of the Popular Party (PP) to power in March 1996, the drive to privatize intensified, becoming total and generalised in scope. For the first time in Spanish history, a government spoke openly about eliminating all public ownership (Comín, 2008). In June 2006, Prime Minister José María Aznar appointed José Villalonga as Telefónica’s president, an old school friend of his, but who had no experience in telecom industry (Bell & Trillas, 2005). Telefónica was fully privatized in February 1997, when the government sold its remaining 20 percent share (Clifton, Comín & Díaz-Fuentes, 2007). Villalonga’s team saw UNISOURCE as a failed international alliance so, in April 1997, Telefónica sought to join the Concert alliance, formed on the merger of BT and MCI in 1996 for two main reasons: to protect its home market from BT, which was at the time Telefónica’s most serious rival in Europe, and also to avoid competing with MCI, one of its competitors in Latin America. When MCI was taken over by World Com in 1997, however, Concert collapsed, so Telefónica formed an alliance with MCI WorldCom to offer services in Europe and improve its position in Latin America. During Villalonga’s short reign, until 2000, Telefónica continued its expansion across Latin America, increasing its stake in Telefónica de
Argentina (28.8 to 97.9 percent), Telesp (17.5 to 86.6 percent), Telefónica de Perú (40 to 93.2 percent), and Tele Sudeste (17.6 to 75.6 percent).

From 2000 onwards, the PP appointed César Alierta as Telefónica’s CEO. Alierta had experience in managing huge mergers, having been previously CEO of former Spanish tobacco monopoly, Tabacalera, when it merged with its French peer in 1999. The Socialist Party reappointed him in 2004, indicating Telefónica’s growing autonomy from politics. During this period, Telefónica consolidated its international presence, staying in Latin America whilst also growing in Europe and has established joint ventures in China. It became the most global of all former telecommunications monopolies, and is ranked in fourth position world-wide in the sector by market capitalization, number one among European integrated operators, and number two in the Eurostoxx in 2010. It is the leader provider in Brazil, Argentina, Chile and Peru and has substantial operations across most other Latin American countries, especially after acquiring BellSouth’s assets in the region in 2004. In addition, Telefónica expanded in Europe, acquiring the incumbent Cesky Telecom in 2005 and acquiring a license for mobile telephony in Slovakia in 2006. It also bought O2, BT’s subsidiaries operating in the United Kingdom, Ireland and Germany) in 2006, whilst an alliance was signed with Telecom Italia (10.49 percent of voting rights) in 2007.

\textit{BT}\footnote{The incumbent supplier of telecommunications in Britain was called British Telecom from 1980 and BT from 1991.}

\textit{Origins as a State-controlled, government-run monopoly.} From its origins in the late 1870s, telecommunications provision across Britain was mixed, being provided by private sector companies, such as the National Telephone Company, and the public sector, particularly, the General Post Office (GPO), which formed part of the Civil Service bureaucracy. In 1896, the GPO took over the trunk service and, by 1912, it had taken over the entire system, excepting a few local authorities, thus unifying the network for the first time and effectively installing a public telecommunications monopoly. Telecommunications in Britain henceforth evolved under State ownership and control, unravelling only from the end of the 1960s. The pace and level of development of telecommunications in Britain from the 1880s to 1950 followed the European average (Millward, 2009: 102). During this period, numerous debates ensued as to whether the Post Office should be converted into a nationalised industry rather than its organization under the auspices of a government department. During the 1930s, the GPO was criticised as being too bureaucratic and ‘Edwardian’ in its running of the network and, though the Bridgeman Committee was set up in 1932 to investigate options for change, nothing materialised (HMSO, undated). Criticism sharpened during the 1950s as waiting lists for telephones rose to unacceptable levels but, again, no organizational changes were agreed. Lipartito (2004: 155) has argued that the fundamental problem plaguing the British network was long-term under-investment: the GPO was used by the government of the day as a tool of demand management, setting budget priorities according to macroeconomic needs until 1961. Furthermore, the failure to prioritise the national network was due to ‘powerful cultural context’ (Lipartito, 2004: 161). Run by civil servants, it was assumed telecommunications were something a person either wanted, or did not; feeble efforts were made to commercialise or expand them, in comparison with other leader nations. Britain had instead historically
prioritised other forms of communication, particular, international cable and telegraph services, for both geopolitical reasons (controlling its empires) and for related business reasons (to serve its foreign investments and Multinational Corporations). Regarding its running of the national network, the GPO behaved as a ‘discriminating monopoly’, under-investing in low-profit services and taking profits where they were made. London was the main priority: with the densest population and the most important businesses, scarce resources were concentrated on the network, supporting the city’s development as a commercial, financial and residence capital (Lipartito, 2004: 157).

The Road to Privatization. The Labour Party which came into power in 1964 pushed for reform, and finally opted to split Telecommunications from Post via the Post Office Act, 1969. At the same time, the Post Office ceased to be a government department, being established as a public corporation, a limited liability company whose shares were listed on the stock market. However, the Treasury still controlled the budget while the old functional management structure remained (Lipartito, 2004: 163). By the 1970s, the potential for technological change, such as digitalization and convergence of voice, data and image, were starting to be recognised, whilst official calculations of the required investment to modernise the British network were of increasing concern to politicians, making external finance look increasingly essential (Parker, 2009: 241). The Carter Committee Report in 1977 recommended Telecommunications and Post be split further, into two individual corporations, leading to the establishment of British Telecom in 1980.

The real watershed in the evolution of telecommunications occurred in the 1980s. Initially, privatization did not figure significantly in Conservative Party leader Margaret Thatcher’s manifesto, the surprising success of selling council houses from 1979 prompted the government to embark properly on privatization (Clifton, Comin & Diaz-Fuentes, 2003). The Conservative Party calculated that external finance would be necessary to modernise telecommunications in Britain, and various financial schemes were considered until outright divesture was finally chosen (Parker, 2009). Due to the Conservative Party’s desire to reduce the monopoly power of British Telecom (Parker, 2009: 244), initial efforts were made to it up prior to the sale, citing the break-up of AT& T in the United States as a model. The unions, some managers, domestic equipment suppliers, the Labour Party and significant public opinion were against privatization per se, whilst unions and managers alike strongly opposed splitting up the enterprise (Parker, 2009: 295). Privatization would be more palatable all round if British Telecom was sold as a single entity. For political reasons, privatization was delayed until after the 1983 election. Meanwhile, the government settled with the second best option: forging limited competition (Florio, 2003). With the British Telecommunications Act of 1981, the liberalization of apparatus and maintenance was introduced. Simultaneously, the government helped engineer the establishment of a rival to British Telecom, Mercury Communications, owned initially by a consortium of Cable & Wireless, BT and Barclays Bank. Soon afterwards, both BP and Barclays withdrew leaving Cable & Wireless the sole owner. To protect and encourage Mercury, it was licensed as British Telecom’s only competitor as part of the ‘duopoly’ policy. Members of the government actively encouraged Mercury to engage in the broadest competition possible, but the firm refused to build a national network, preferring to use existing lines to cream-skim profitable business (Parker, 2009: 246).
In 1984, the initial public offering of 51 percent of British Telecom shares was sold. This was the first time Britain had sold a national monopoly, and the sale was one of the largest public offerings to date, requiring the establishment of a new regulatory approach (known as the RPI-X formula) and an independent regulatory agency, the Office for Telecommunications. The way in which British Telecom was privatised came to represent a blueprint for the sale of other utilities, in Britain, Europe, Latin America and beyond (Clifton, 2000). The reasons behind the Conservative Party’s decision to privatise British Telecom in 1984 can be summarised into three main points. Firstly, from the practical side, it was recognised that new technology would require levels of investment that the government, constrained by its public debt, would not provide. As a private firm with growth potential, attracting this finance would not be an issue. Secondly, the government’s ideological stance was in favour of reducing the monopoly power of British Telecom and its unions, especially the Post Office Engineering Union, via the introduction of competition (Parker, 2009: 241-4). Thirdly, from a political economy perspective, the government was lobbied by the City and the Bank of England who claimed London’s hub as an international financial centre would be at risk without modern and efficiently working communications services.

The sale was subject to much publicity including television, press, poster, radio, leaflet, and travelling road show campaigns. The offer was 3.2 times over-subscribed and concluded with 2.15 million investors (Parker, 2009: 312). Nigel Lawson, then Chancellor of the Exchequer, lauded the sale as ‘the birth of people’s capitalism’ (Lawson, 1992, cited in Parker, 2009: 320). British Telecom was finally working under private company law, freed from former borrowing restrictions. The 1991 White Paper ended the duopoly, opening the door to increased competition from domestic and foreign providers. Renamed BT, the old red telephone boxes were replaced with class ones painted with a pied piper, whilst the firm was reorganised into profit centres, and staff retrained along commercial lines. Corporate governance was reformed, rendering its directors much more accountable towards shareholders than was the case in its Italian, French and German peers (Goldstein, 2000: 203), including through generous bonuses. BT helped facilitate the decline of the power of its unions (Hulsink, 1999: 155), which in turn facilitated the introduction of more flexible labour contracts, merit-based promotion and less generous pension schemes. Total privatization was completed in stages: in 1991, the government sold off half of its 47.6 percent of shares, and two years later, virtually all of its remaining shares. Finally, the incoming Labour government sold off its ‘golden share’ in 1997 which had been retained initially to avoid take-overs (HMSO, undated).

**BT abroad.** BT’s new business environment, particularly technological and regulatory change, plus its new financial freedom, opened the door to its internationalization. Two main routes to internationalization were through Foreign Direct Investment and global alliances. BT opted largely for global alliances, particularly with large players based in the United States. Though its internationalization project started ambitiously, with hindsight it has been widely regarded as a failure (Turner & Gardiner, 2007). In 1994, BT (71.5 percent) and the United States’ second largest long-distance telecommunications firm, MCI (24.9 percent), entered a joint venture to provide global communication services to Multinational Corporations by establishing Concert. By 1996, after a number of other operators, including Telefónica, joined, Concert was positioned to emerge as the leading provider of its kind, however, just before finalizing the merger between BT and MCI, MCI was bought by WorldCom. Telefónica
abandoned the alliance to join WorldCom-MCI. Again, in 1998, BT and AT&T agreed to form a joint venture to serve Multinational Corporations, but the new Concert project was abandoned in 2001, and the companies were forced to embark on a costly de-merger. BT was also forced to de-merge from its mobile activities in the form of MMO2, to reduce its debt caused by acquisitions and 3G licenses (van Kranenburg & Hagedoorn, 2008: 122).

Conclusions

This article sought to explain why, after regulatory change across the telecommunications sector from the 1970s, some of Europe’s former national telecommunications monopolies embarked on vigorous and successful international ventures, joining the ranks of the world’s leading Multinational Corporations, whilst others were much less successful, internationalizing either hesitantly, or else going abroad, failing and later de-internationalizing. For some scholars of international business, this uneven road to internationalization could be explained by short-term regulatory asymmetries between countries (Sarkar et al., 1999, Bonardi, 2004). That is, former monopolies based in countries where liberalization and privatization were delayed or restricted, relative to elsewhere, would internationalize more strongly, enjoying, as they did, greater access to monopoly rents, political diplomacy and inside information to facilitate their adventures abroad. Elsewhere, the authors showed this explanation to be unsatisfactory, since no significant correlation was found between firm internationalization, and speed and depth of liberalization and privatization (Clifton, Díaz-Fuentes & Revuelta, 2010). Data on firm internationalization, liberalization and privatization presented in this article confirmed that firms internationalized strongly both from country bases where policy had reached different stages. So, explanations for different internationalization must be found at the firm level. Taking as the point of departure the notion that firms do not operate in a vacuum, but are embedded in national contexts, including different regulatory frameworks, the article continued by exploring how regulation might have influenced firms’ later position and approach to the opportunity to internationalize. Following maximum variation case study methodology (Flyvbjerg, 2006), two large telecommunications firms were selected for analysis: Telefónica and BT. Both were based in large countries where privatization and liberalization had either been implemented earlier or on time, with respect to the European average but, these firms embodied two highly differing – near opposite - internationalization strategies. Telefónica ventured abroad very early on, in a vigorous and unrelenting fashion, mainly through FDI, emerging as one of the worlds’ most international of telecommunications former monopolies (UNCTAD, 2010). BT started to internationalise somewhat later, though it was more active compared with many of its European peers. However, global alliances were prioritised over FDI and, each of these alliances failed successively. Later on, BT managers decided to partly de-internationalize and refocus on its home market. BT became the least international of the large European players.

Explanations for radically different paths to internationalization can be found in an analysis of the historical evolution of the different regulatory frameworks in which each incumbent developed, particularly, through ownership, management style, access to capital and exposure to liberalization. As regards ownership, Telefónica was exceptional in the European context in that it was born not only as a private company, but as one controlled by an emerging US Multinational Corporation, ITT. Though private, foreign
influence was greatly reduced when the firm was nationalized in 1944 under the Franco regime, nationalization was never total since the firm always remained partly controlled by private national banks and multiple shareholders. As regards management, Telefónica was never run by a PTT; management style was closer to that of a private firm than public administration. Moreover, even from its origins in 1924, Telefónica accumulated experience in generating finance externally, issuing multiple public offerings, even though these were subject to limits due to partial State ownership. From the 1980s, much of this finance would be obtained in international market and channelled towards its corporate internationalization, so these operations did not strain government budgets. The challenge of technological change in the telecommunications sector was met in Spain by a Socialist government in an optimistic period of democratic transition and membership of the European Community. As part of a general project of industrial restructuring, Telefónica was forced to change its management style. It broke its technological dependence on Standard Eléctrica (ITT) while forging technological and business alliances with suppliers world-wide, and improving domestic R&D. It was partially privatised, embarking on an internationalization strategy using finance from public offerings. Despite the fact that Spain was given a formal extension by the European Commission to introduce telecommunications liberalization CUT CUT it chose to assume the earlier deadline of 1998, in line with most other European countries. Nevertheless, Telefónica, unlike British Telecom, did enjoy some pampering as a ‘national champion’. Importantly, Telefónica’s foreign acquisitions in Latin America in the aftermath of the debt crisis were conducted from the cosy base of monopoly status. Despite formal liberalization, Telefónica continued to enjoy a high market share vis-à-vis many of its European peers.

The ownership and management style of telecommunications in Britain contrasted sharply with the experience of Telefónica. In Britain, telecommunications were consolidated as a national network under State ownership and public administrative control from the end of the nineteenth century. Despite regular criticism that its managerial style was overly bureaucratic from the 1930 to the early 1960s, no major changes were introduced. As an arm of government, investment in British telecommunications was strictly limited, whilst its managers lacked commercial vision (Lipartito, 2004). Technological changes in the communications sector was a common watershed for governments around the world. In Britain, the government and the City concluded that the required investment could be generated were British Telecom to be privatised. This was used to justify its privatization, from 1984, though the government also had ideological reasons to promote its sale, particularly, to weaken the trade unions and the monopoly power of the firm (Parker, 2009), a policy later emulated by Latin American governments (Clifton, 2000). Though some in the government wished to split up British Telecom prior to the sale, when this failed, an alternative route was taken: the government would support the emergence of a rival, Mercury. The British government started to liberalize telecommunications markets well ahead of the European directive. Despite the fact that competition pressures on BT were limited (Florio, 2003), they were still greater than those faced by most of its European peers. In so doing, the government revealed they were not prepared to protect British Telecom as a ‘national champion’. When mobile phone licences were auctioned in the 1980s, Racal Electronics and Cable & Wireless, renamed Vodafone, emerged. Its international operations would soon overshadow the incumbent. With an increasingly contested home market and, without ‘national champion’ backing, BT opted to internationalise through global alliances, particularly with key US firms like MCI. This strategy was generally perceived as a
quicker and less risky path towards internationalization than that of FDI (Ulset, 2008). When its alliances failed successively, it is hardly surprising that management decided to refocus efforts on protecting its market share at home, effectively, partially de-nationalizing.
Bibliography


