

Globacom nigerias
internationalization
process management
essay



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This research work studies the factors that have contributed to Globacom Nigeria's internationalization process on the African continent. Globacom Nigeria is an international telecommunication company with headquarters in Lagos, Nigeria and with physical presence in 5 African countries as well as roaming presence all over the world.

Ahmad and Hashim (2007), states that internationalization is a very important factor in a firm's bid to grow and develop economically and technologically. Early entrants in the telecommunication industry are enabled by internationalization to gain massive first mover benefits due to the short-lived period of the windows of opportunity and the possibilities of influencing the regulatory process as an incumbent. To gain these numerous economic and strategic benefits, firms usually adopt a strategy of pre-emption, both of markets and partners(Sarkar et al, 1999).

According to Elango(1998), there are a number of theories or explanations which have been provided to enlighten us on why a firm internationalizes its operations; explanations which includes: Market power,, Unique assets and Transaction costs have been used to justify the decision by a firm to move into the international markets(Rugman, 1980; Buckley, 1985). Krugman and Obstfield(2009)'s theory of multinational enterprise expands these views by stating that a firm's penchant to own foreign investment is as a result of location and internalization benefits.

The account of international expansion in the telecommunication industry has been mostly controlled by the Firms in the more advanced western world. The past decade has experienced leading firms from the advanced

European markets such as Vodafone, Deutsche Telekom, Telenor, Orange, etc, adapting their domestic experiences and operations into other neighboring countries, before heading further to other countries. A major share of the attention in the telecommunication industry is controlled by mobile markets in the advanced areas of the world. However, in subscription terms, this gap is gradually closing up, as there is now an increasing number of mobile phone users in developing markets. (ITU, 2010).

1. 2 Research motivation

Rapid Economic development is identified to be highly influenced by investments in telecommunication industry(Lin, 2008), because it is said to be the most important sector that drives most of the overall interest in private infrastructure investment in countries of the developing world(Kambhato, 1998). It is also a known fact that the concept of internationalization in telecommunication is still virtually, a new area as regards to theories construction and testing, and this is in spite of the fact that infrastructural development in the telecommunication sector is being accorded rising importance in the economies of the emerging markets(Javalgi and Martin, 2007).

This Area of study is relevant because till date, research on Entrepreneurship in Nigeria and Africa as a whole, in major academic journals in Norway and Europe is still on the low side. Nigeria and Africa have one of the largest populations in the world, with the largest untapped markets still existing and with one of the largest sources of natural resources still left grossly undeveloped, but still remains the world's poorest region.(Khavul et al,

2007). According to Sakarya, Eckman and Hyllegard(2007), research on traditional market selection fails to account for an emerging market's dynamism and future potential, because its analysis relies on mainly macro-economic and political factors; thus, it is believed that multi-national companies in the western world would be more inclined to invest in Nigeria and Africa as a whole, if a successful company's approach to expansion in Africa is investigated and analyzed.

The utilization of the Globacom Nigeria as an object of this study on internationalization in the telecommunication sector presents several benefits. First, the recent occurrence of events, enables us to benefit from the opinions of Key players playing a major role in the internationalization process; secondly, the gradual increase in the pace of internationalization process, from a slow base to a faster base, calls enables a large range of actions to be captured, and thirdly, the pace of its transformation is similar to an accelerated research, and enables us to observe happenings over a short period , while providing control over unconnected factors(adapted from Klein and Wocke, 2007).

1. 3 Research scope

The scope of this research report is prepared by adopting the micro and macro level forces which propel the internationalization in the telecommunication sector according the framework of the emerging markets and it is directed through, by the description of the following terms:

1. 3. 1 Emerging Market Multinationals

According to Yeung(1994), Emerging market multinational is defined in the context of this study, as any domestic enterprise with its headquarters in developing countries, which controls assets and influences the decision making process of one or more cross-border subsidiaries or affiliates and it is known as “ third world multinationals”. The term “ Emerging market Multinationals” is preferred over other alternative terms because according to an Author, who was known as Krishna Kumar, in his book published in 1981, He wrote that, and I quote:” The typical reaction to the title: Multinational from Developing countries is genuine skepticism, if not utter disbelief. We are so used to associating multinationals with nations of the Developed world, and we react negatively to the possibility suggested by the title of this book”. Also, according to Yeung(1994), there is an apparent lack of sensitivity in the definition of the term:” Third world Multinationals”, as the use of this term could be misleading, due to the disagreements concerning the imperialistic concept of “ third world”.

In summary, Multinationals were defined and invented by first world Economies, but like everything else in our globalised era, they are no longer associated only with the West.(Accenture, 2008).

1. 3. 2 Emerging Markets

The term “ Emerging markets” has been utilized in place of other terms such as “ Third world Countries”, “ Less developed countries”, and it is used to highlight a country’s sources of cheap raw materials and labor, as an alternative to their markets(Arnold and Quelch, 1998). Emerging markets according the framework of this research report is defined as a term, which

seeks to identify Countries that have adopted a transition in their political and economic system, and are also experiencing rapid Economic development(Fan, 2008).

1. 4 Telecommunication Background in Nigeria

Nigeria is one of the biggest and fastest growing telecom markets in Africa, attracting huge amounts of foreign investment, and is yet standing at relatively low levels of market penetration. Far reaching liberalization has led to hundreds of companies providing virtually all kinds of telecom and value-added services in an independently regulated market.

The West African country has overtaken South Africa to become the continent's largest mobile market with now over 75 million subscribers, and yet market penetration stands at only around 50% in early 2010. However, subscriber growth slowed significantly during 2009, partly as a result of the global economic crisis. Much of the remaining addressable market is in the country's rural areas where network rollouts and operations are expensive. This, in combination with declining ARPU levels is forcing the networks to streamline their operations and to develop new revenue streams from services such as 3G mobile broadband, mobile payments/banking, and others. At the same time the operators are rolling out national fibre backbone networks to support the ever increasing demand for bandwidth.

Nigeria is also the most competitive fixed-line market in Africa, featuring a second national operator (SNO, Globacom) and over 80 other companies licensed to provide fixed telephony services. The alternative carriers

combined now provide over 95% of all fixed connections, the majority of
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which has been implemented using wireless technologies. This gives the network operators the opportunity to also enter the lucrative mobile market under a new unified licensing regime and has helped them to secure hundreds of millions of US\$ in investments from local and foreign investors.

Nitel's monopoly on international fibre bandwidth via the SAT-3/WASC submarine cable system ended in 2009 when Globacom's Glo-1 cable landed in the country. Additional submarine cables are scheduled to go online in 2010 and 2011. This is set to revolutionize the country's underdeveloped Internet and broadband sector by reducing the cost of international bandwidth by up to 90%. New powerful players from the fixed-wireless and mobile network operator camps have entered this market with 3G mobile and advanced wireless broadband services such as WiMAX. The IP-based next generation networks currently being rolled out are enabling converged voice, data/Internet and video services. VoIP is already carrying the bulk of Nigeria's international voice traffic. Applications such as e-commerce, online banking and e-payments, e-health, e-learning and e-government are rapidly evolving (PRLog free press release, 2010).

1. 5 Introducing Globacom Nigeria Telecommunication company

Globacom is a Nigerian multinational telecommunications company headquartered in Lagos, Nigeria. GLO is a privately owned telecommunications carrier that started operations on 29th of August 2003. It currently operates in 4 countries in West Africa namely Nigeria, Republic of Benin, Ghana and Ivory Coast. As of June 2009, the company has employed more than 2, 500 people worldwide. Also, Globacom is Africa's fastest

growing telecommunications company. Owned by the Mike Adenuga Group, Globacom is the market leading mobile service provider in Nigeria. It has a reputation as one of the fastest growing mobile service providers in the world(www. gloworld. com).

As a company, Globacom recently made history as the first single company to build an \$800 million high capacity fiber-optic cable, known as Glo-1. It is the first successful submarine cable from the United Kingdom to Nigeria; and it will decrease telecom process and provide excess bandwidth to all the cities connected to the cable. This historical initiative will also improve teleconferencing, distance learning, disaster recovery and telemedicine among several other benefits. As part of giving back to the communities in which it operates, Globacom Nigeria sponsors the national football teams and the premier leagues in Nigeria and Ghana. In 2010, Globacom sponsored the African Handball tournament in Benin Republic as well as the biggest cultural festival (FITHEB) held in the Benin republic. Globacom has also sponsored the annual confederation of African Football (CAF) Awards since 2005. Finally, apart from aiming to be the most socially responsible citizen in all its host countries, Globacom aims to be recognized as the biggest and best mobile network in Africa(www. gloworld. com).

1. 6 Objective of the study and organization of the study

The objective of this research report is to investigate the factors that have influenced the internationalization process of Globacom telecommunications, Nigeria on the African continent. A detailed examination of its internationalization process reviews a strong linked boundary between the

Micro(internal) and Macro(external) forces. These 2 combined forces have enhanced Globacom's ability to forcefully pursue the vast international opportunities which exists beyond its domestic market and in market which are opening up on the International level.

The organization of this research work is as follows; First, the Internationalization and Internalization theories, which comprises the 2 major schools of literature concerned with International expansion, are evaluated to comprehend their positions as related to the tempo of Internationalization, modal preference and size of the firm within the Telecommunication Industry.

The evaluation of the 2 major schools of literature leads to the design of a conceptual framework, which is done with the literature review in mind, after which the research questions are developed and presented. In furtherance, there is an emphasis placed on the Data and method adopted in the internationalization process of Globacom in Africa; and in addition, there is an analysis of the Data on Globacom's investments in Africa in order to determine applicable patterns.

This research work is finally concluded, by integrating conceptually all arguments that may be appropriate to Industries possessing related features(adapted from Sarkar et al., 1999).

2. 0 LITERATURE REVIEW

2. 1 Introduction

Various literatures on Internationalization were reviewed in order to ascertain the philosophies which dominated internationalization theories. Recent Schools of thoughts on Internationalization and internationalization which are related to mobile telecommunication service suppliers and telecommunication Foreign Direct Investment(FDI) formed the main focus of this literature review. The literature review was also expanded in order to create a theoretical background for investigating the research problem which was introduced in chapter 1 and also, it was performed using the emerging markets of Africa, Asia and latin America as the main context.

The analysis of the International expansion of firms requires studying all areas of Internationalization which includes Individual investment/entry decisions and its strategic and process features, such as the rate of Internationalization, the progression of market commitment as revealed through the size of investments and the tactical choice of deciding would be markets and partners(Sarkar et al., 1999). The main aim of this review is to establish the factors which are vital to influencing the internationalization of communications within the context of an emerging market.

2. 2 Market Expansion and Internationalization issues

Internationalization issues is said to rank as one of the most talked about areas in International Business and Global Marketing(Anwar, 2003).

Furthermore, it is a very popular belief that firms can increase their profitability by expanding internationally. But for a few notable exceptions, academic literature has supplied unsatisfactory details concerning the different patterns and procedures for internationalizing a company. The few

notable exceptions includes the Uppsala Internationalization model and the theory of Internalization(Mintzberg, 1989).

2. 2. 1 The Uppsala Internationalization model

The Uppsala Internationalization model which establishes its theoretical base by adopting the behavioral theory of the firm(Cyert and March, 1963) and Penrose's(1959) theory of the growth of the Firm, signifies that firms display an evolutionary procedure, where their internationalization activities goes through a sequence of evolutionary stages(Johanson and Vahlne, 1990). This model identifies different stages which occurs during the process of a firm's internationalization by adopting the empirical research of the Internationalization process of 4 Swedish firms.

It is believed that firms execute their internationalization plans through exportation by targeting firms that are psychically nearby and then through assurance, amassing of business knowledge and possession of International experience, firms invested greater amount of resources and began to target Countries that are far away “ psychically”. This Model highlights the need to acquire the knowledge and experience of the features of foreign markets which are on the Internationalization path, which leads to a reduced level of ambiguity and confusion inherent in foreign markets before investing(Ahmed and Hashim, 2007).

2. 2. 2 Internalization theory

Internalization theory's origin can be traced back to Ronald Coase(1937), who stated that there are situations in which it is more resourceful for a firm

to establish an Internal market rather than enter foreign ones; one of the situations includes the cost of transaction in foreign activities. According to Internalization theory researchers, market failures which includes information costs, opportunism and asset specification are the main reasons that motivates a Multinational Enterprise(MNE) to use direct investment rather than licensing. Foreign Direct Investment takes place when the advantages are more than the costs of Internalization(Fina and Rugman, 1996).

According to Axin and Mathyssen(2002), Internalization theory views MNEs as representing an alternative mechanism for organizing economically profitable activities across national boundaries; this is important because of market imperfections such as Government intervention or Buyer uncertainty and finally, this theory shares some roots with transaction cost theory which it moved its attention from using hierarchy to organize economic activity in foreign markets to forecasting when and whether contracts are efficient or not.

2. 2. 3 Eclectic Theory

According to Axinn and Matthyssens(2002), this theory was formulated by Dunning(1977, 1979, 1988) and it was studied because it integrated roots and elements from Internalization theory, transaction cost theory and Industrial organization theory to enlighten us on why firms invest and produces abroad.

Finally, according to this theory, a firm's decision to participate in Foreign Direct Investment depends on the interaction of 3 variables which includes:
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ownership-specific advantages, Internalization advantages and location attractiveness of countries.

2. 2 Criticisms of the Uppsala Internationalization Model

According to Zander(1994), the Uppsala model has gone through several criticisms, he stated that some firms mainly those with a lot of resources do not compulsorily fulfill any consistent pattern during the process of Internationalization; invariably, firms can bypass stages and transfer learning from one market to another.

Furthermore, according to Oviatt and McDougall(1994), a theory proposed by them, known as “ The Born Global theory”, further augments the arguments against the stages process. This theory propagates the view that increasing global competition and increasing development in technology are now compelling firms to internationalize more quickly, without compulsorily going through an incremental process. These firms, theoretical are international or Born Global from the onset. The Uppsala model as regards its incremental and progressive approach is viewed as being too deterministic and path dependent and does not accept the role of other firm profile factors, such as the path breaking strategic choices of Internationally oriented Entrepreneurs and Managers that leads to an increased speed in Internationalization(Weerawardena, Mort, Liesch and Knight, 2007).

Hirsch and Meshulach(1991) further argued that in explaining the internationalization process, the Uppsala Model centers more on the internal resources of the firm(Knowledge of the market and experience from the foreign activities). In addition, the Uppsala Model completely overlooks other <https://assignbuster.com/globacom-nigerias-internationalization-process-management-essay/>

factors such as capabilities of the market and conditions for competition(Ahmad and Hashim, 2007).

Both the Uppsala model and the Internalization theoretical postulations integrates the spatial aspects of foreign activities by adopting the psychic distance concept, although in numerous diverse approaches. While, in the Internalization theory, psychic distance increases organization costs and uncertainty, which affects the choice of structure in Governance. The Internationalization model argues that firms would initially enter and invest resources to markets in countries with related economic, cultural, social and political systems; consequently, firms expands into countries with greater psychic distance. Both of these theories have been criticized for neglecting matters concerned with investment timing(Sarkar et al., 1999). Furthermore, according to Axinn and Matthyssens(2002), the context of psychic distances and cultural proximity is not easy to maintain in the light of an accelerating culturally homogenous world.

Finally, theories which rely on economic theory as a foundation underrates the significant positions taken by managers in making decisions on Internationalization; In today's global world, where there are flatter hierarchies, business unit structures and more elastic inter-firm relationships, managers play an increasingly significant position in the establishment of firms internationalization strategies(Axinn and Matthyssens, 2002).

2. 3 A conceptual framework as a research guide

Despite the avalanche of criticisms (Anders on, 1993), these theories have made significant contributions to the development of International business research. However, International expansion in the area of Telecommunication is relatively a recent phenomenon and has largely received very little interest. Now, there have been a lot of questions which have cropped up on if existing frameworks need to be supplemented, so that contextual eccentricities are overtly integrated into sector-specific theories (Sarkar et al., 1999) cited in Bohlin and Granstrand (1994).

There is a cogent need to initiate a conceptual framework in order to facilitate a better comprehension of the key variables which influence the tempo of telecommunication firms' internationalization in emerging Economies, which is due to the lack of research on Internationalization of telecommunication firms and the divergent opinions concerning the relevance of existing theories. The suggested framework (Fig. 2. 1) is meant to be indicative and can further be altered and tested empirically. It integrates a variety of situations that might affect and give reasons concerning a firm's decisions on internationalization, actions and dynamic approaches (Jones and Coviello, 2005).

In figure 2. 1, the important variables of a model of fast internationalization of firms in emerging economies are directed by micro level (Firm differentiation forces) and Macro level (environment/country differentiation forces) (Javalgi and Martin, 2007). Despite the arguments of some analysts that multinational telecommunication firms are increasingly sovereign and disconnected from macro level restrictions (Ramamurti, 2001; Loveridge and Mueller, 1990). It is a known fact that MNCs in responsive telecommunication <https://assignbuster.com/globacom-nigerias-internationalization-process-management-essay/>

infrastructure industries are still subject to the vagaries and pressures of the governments of the host countries(Wells and Gleason, 1994), thereby causing the analysis of the host government and investing firm to be equally important(Doh and Teegan, 2003).

Figure 2. 1: A diagram and Description of the Conceptual framework of Rapid internationalization of Emerging Market Multinationals in the Telecommunication sector.

(Source: Adapted from Johnson and Tellis, 2008.

Note:

Non measured construct

Measured variable

Estimated Relationship

Macro level country differen-tiation

Microlevel firm differentiation. Firm strategy

Firm resources

Host country features

features

Host home location

Entry Mode

Entry Timing

Firm Size

Entrepreneurial proclivity

Institutional Development

Cultural Distance

Country of Origin effects

The conceptual framework is initiated as a guide in enlightening us on the distinctive behaviours which stimulates the speedy Internationalization of Emerging market multinationals in the telecommunication sector. A review of the existing literature on the conceptual framework is conducted below:

2. 4 Micro-level forces

2. 4. 1 Entry mode

According to Slangen and Hennart(2007), there are several different entry modes through which internationalizing firms can penetrate into foreign countries and they include contractual modes such as direct exports and licensing, to equity modes such as Greenfield joint ventures(JVs) and full acquisitions. Additionally, the response of a firm to challenges inherent in entering a new country and marketing its products successfully is determined by the mode of Entry(Gillespie, Jeannet and Heennessy, 2007) .

Furthermore an expansion into the transaction cost/internalization theory argues that the choice made by a Multinational Enterprise between Greenfields joint ventures and acquisitions is dependent on an assessment of the costs associated with utilizing or acquiring immediate inputs through these 2 foreign establishment modes(Slangen and Hennart, 2007).

Multinational Enterprises might decide to utilize or acquire the entrenched technological knowledge which is normally implicit and therefore expensive to trade through the market and with the possession of this kind of knowledge, there is a probability that Multinational Enterprises may want to utilize it abroad in order to achieve economies of scale in production(Hennart, 1982). The transaction cost associated with exploiting such knowledge through Greenfield joint venture are generally less than those linked with exploiting it through acquisitions, because Greenfields aid Multinational Enterprises in establishing their technologies from the onset and to transfer the consequent skills to a cautiously selected workforce able and enthusiastic about taking them in(Hennart and Park, 1993).

According to Arnold(2004), the above view is sustained by resource based theories, which places the firm's chances of increased success on the degree of foreign control, as the firm can set up key resources that are vital to success. Furthermore, it allows the practice of internal operational control which is vital for a firm's success in emerging markets and it also enables a firm to control key corresponding resources which are necessary in ensuring a firm's success in any country.

2. 4. 2 Entry Timing

During the 1990s, there were arguments by the international entrepreneurship researchers concerning the view that internationalization was portrayed as a gradual process that is revealed during the course of time (McDougall, Shane and Oviatt, 1994). A contradictory view was that entrepreneurial firms that initiated internationalization earlier in their lives would surpass those that internationalized later, since entrepreneurial firms would not suffer from structural inertia (Hannan and Freeman, 1977, 1984), Dominant logic (Bettis and Prahalad, 1995) and cognitive blinders (Walsh, 1985, 1995).

Furthermore according to Johnson and Tellis (2008), a firm's success and failure in the international market is determined by its early entry, timing and he points out that early entry has so many advantages and disadvantages. The Advantages includes the ability of the Early entrants to restrict access to key resources, such as distribution channels and suppliers; secondly, being an early entrant enables them to set the pathway of consumer preference. Thirdly, early entrants are allowed to be the first to utilize governmental concessions and incentives ; on the other hand, according to Golder and Tellis (1993) states that early entrants are occasionally not the winners in the market during the long term, due to several reasons which includes Firms rushing to newly opened emerging markets, while late entrants have a flatter learning curve because they can learn from early entrants' mistakes.

2. 4. 3 Firm size

Johnson and Tellis(2008) states that literature is not undivided about the function of firm size on international expansion; for instance, some researchers claim that firm size helps, while others claim that it is harmful. There have been several motives given on why larger firms might be more successful than the smaller ones. First, larger firms are more likely to acquire a greater range of product and market specific knowledge than the smaller ones.

Secondly, larger firms have a higher ability to sustain periods of negative business performance on entry into a host country than smaller firms and thirdly, larger firms have more access to more resources, both material and financial than smaller firms. On the other hand, in cases where larger firms usually go through a high degree of “ redtapism”, which usually obstructs their inventive abilities, smaller firms are usually less rigid, largely unbureaucratic and thus they enjoy a lot of internal conditions that provides conducive environment for innovation to thrive; also the flexibility of young and agile firms increases their chances of transforming a product and process innovations into business activities that encourages a higher business performance(Knight and Cavusgil, 2004).

Finally, Arnold and Quelch(1998) states that for small and young firms, who are knowledgeable about the significance of International competition and customers, emerging markets are seen as a better way of being a “ Born Global”, because of the high growth rates, less developed brand preference, more fragmented industry structures and less severe competition..

2. 4. 4 Entrepreneurial Proclivity

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Entrepreneurial proclivity is referred to as the firm's predisposition to engage in entrepreneurial process, practices and decision making, characterized by its organizational culture for innovativeness, risk taking and proactiveness (Zhou, 2007). These 3 elements of a firm's Entrepreneurial proclivity positively simplify the process of making a firm being able and willing to participate in market learning activities (Zhou, 2007). In addition, entrepreneurial proclivity provides international firms with self-motivated capabilities to participate in international business and trade activities (Zhou, 2007) cited in Toyne (1989).

In recent times, there have been a sizeable amount of research inputs on the specified drivers of a firm focused on internationalization on the level of entrepreneurial assumptions amidst the stakeholders involved in the internationalization strategy of the firm. A positive relationship existing between entrepreneur's international development has been disclosed to be the outcome of the study (Zucchella, Palamara and Denicolai, 2007 citing Ibeh and Young, 2001; Westhead et al., 2001).

According to Perlmutter (1969, p. 11), it is believed that "the more we infiltrate into the living reality of international firms, the more we find it compulsory to attach serious considerations to the way executives imagine the ways through which business is conducted around the world. Finally, according to Weerawardena et al. (2007), rapid internationalization is believed to be stimulated by Entrepreneurial managers and owners whose mindsets are globalised, as these kind of mindsets enables them to find and utilize market opportunities internationally.

2. 5 Macro level forces

According to Perez-Bates and Eden(2008), right through the 1990's and till now, emerging economies in the whole world liberalized, deregulated and privatized their domestic markets which led to fundamental and far reaching institutional changes for emerging market firms. Emerging markets are beneficial due to some reasons which includes:

The developing and transition economies(emerging markets), have attracted half of global foreign direct investments inflows in 2010, which amounts 1. 2 trillion US dollars in 2010 and is expected to rise further to 1. 3-1. 5 trillion Dollars in 2011 and then head towards 1. 6-2trillion US dollars in 2012 (world investment report, 2010); all this figures proves that the strength of the emerging market economies is still increasing.

Firms with stronger international and global status, have better abilities to attract new customers relatively fas