

**Rivalry Through Alliances: Competitive Strategy**  
**In the Global Telecommunications Market -- A Reply to Curwen**

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## **Introduction**

In his rejoinder in this journal, Curwen (2001) comments on our paper on strategy for telecommunications firms (Chan-Olmsted and Jamison, 2001). We described our paper as “the first and the qualitative section of a two-part strategy research project” examining business strategies for telecommunications firms in light of globalization and convergence. The second part of our project, which is still in process, is an empirical study of the economic and strategic management theories we examined in the first paper. We selected these theories because we believed they had special application to telecommunications. We illustrated these strategies with numerous examples of companies that appeared to be attempting to apply them. Except in the cases of the global alliances Concert, Global One, and World Partners, we did not assert that our examples validated our theories. Neither did we hold that these examples represented either successful or unsuccessful applications of the concepts we described. Regarding the global alliances, we explained why they generally did not survive and we described some of the lessons learned.

Curwen correctly points out a problem with our paper; when we discussed mergers, we called them a special form of alliance. This is an unusual use of the term alliance and it may cause confusion. Beyond this, we take exception with Curwen’s rejoinder. As we explain below, we believe he bases his comments largely on a misreading of our paper and on inappropriate analyses.

## **Misconception of Our Purpose**

Curwen appears to have misunderstood the design of our paper. He treats our examples as attempts to provide empirical evidence that companies should apply the theories we described. For example, he says that we identified British Telecom, Deutsche Telekom, Telefonica, and Vodafone as success stories for companies expanding into multiple geographic areas; the KPN-Qwest joint venture, Concert, and Telefonica as successful local-to-global-to-local businesses; AT&T as successfully implementing a focus strategy while simultaneously successfully developing a seamless integration of multiple access technologies; and NTT and China Telecom as successful examples of applying a focus strategy. He further says that these are generally failures. All we claimed is that these businesses were attempting the strategies we described. We collected no data with which to assess the success or failure of any of these attempts and so we made no such assessments. As a result, Curwen's claim that these strategic moves have become failures in recent months is irrelevant to our argument. Furthermore, as we discuss below, even if his claim were relevant to our paper, he does not provide an empirical refutation of our paper because he bases his claim on weak evidence.

Before addressing that point, we would like to take exception with Curwen’s comment that our use of NTT and China Telecom as examples of a focus strategy was “unhelpful”. He appears to believe that focus is an appropriate strategy for these companies, saying, “neither company has any real incentive to look overseas.” If he is correct that both

companies are doing the right thing, then it is unclear why we should not have used them as examples.

### **Empirical Evidence**

We disagree with the empirical evidence Curwen uses to support his view that there are essentially no appropriate strategies for telecom firms. In his conclusion, he states that the financial markets are opposed to all strategies except unbundling, which he appears to define as divestitures, such as AT&T's breakup into broadband, wireless, etc. He bases his conclusion on how much an individual company's market value has decreased since the stock market peak of early 2000. For example, he asserts that Vodafone's over 50 percent decline indicates that Vodafone's focus on mobile markets was wrong and that KPN's 88 percent decline demonstrates that it should not have a joint venture with Qwest. We disagree that it is appropriate to draw such conclusions with such limited data. He has only two data points (early 2000 and mid-year 2001) for his dependent variable (market value) and uses a single explanatory variable (strategy) that he believes does not change during this time period. A model with such limited information cannot provide valid conclusions because it omits other explanatory variables, such as economic conditions and dividend policies, that are well-known determinants of market value (Brigham and Houston, 2002, pp. 415-421). Furthermore, the small number of observations makes the degrees of freedom less than one, which makes statistical inference impossible. In addition, we disagree that nominal market value is the appropriate dependent variable. Market value and changes of market value for specific companies should be measured against the overall market because the overall market represents investors' opportunity costs (Alexander, Sharpe, and Bailey, 2001, pp. 418-419). As a result, the conclusions that Curwen offers cannot be validated with the data he presents.

### **Omitted Issues**

In several places, Curwen comments on our paper's lack of discussion of the current debt problems of the telecom companies. He is correct that we did not discuss the current news on this topic. He is also correct that poor financial health constrains companies' strategic options. We omitted any discussion of current finances because the need for companies to be financially healthy is well established and it hardly seemed worth while to cover this well-worn ground in an academic paper.

Curwen is incorrect that we failed to observe that a focus strategy (which he chooses to call unbundling) "is the exact opposite of the 'bundling' strategy," by which he appears to mean strategies involving multiple markets or multiple products. Our discussion of the focus strategy clearly differentiated it from approaches that expand a company's scope. It is true that we did not dwell on this point. We believed the difference was obvious and did not need further elaboration.

## **Other Issues**

There are other instances where Curwen's rejoinder attributes statements to us that we did not make. For example, he implies that we found that traditional wireline operators' investments in wireless operators were successful. (He says, "What they appear not to have noticed is that (wireline operators moving into wireless) has been an almost total strategic failure.") We only mentioned wireline operators' investments in wireless and did so to contrast firms such as Vodafone that had focused on wireless. Furthermore, it is incorrect to say that wireline operators have been generally unsuccessful in their wireless ventures. Several traditional wireline operators – e.g., SBC, Verizon, and BellSouth – have not experienced the strategic failures Curwen attributes to wireline operators.

He also implies that we viewed Cable & Wireless as having successfully pursued a focus strategy. We did not mention Cable & Wireless in our paper. In addition, he says that we asserted "that companies need to concentrate upon their customers' needs" and says this is a trivial point. We agree that this is a trivial point and so we never made the statement attributed to us. Curwen appears to confuse the customer-solutions strategy with concentrating on customer needs. Customer-solutions is a strategy based on addressing the needs of individual customers or small groups of customers, but several other strategies we examined, such as the local-to-global-to-local strategy, are also based on meeting customers' needs.

The rejoinder is generally critical of our emphasis on scale. Curwen states that the financial markets are currently punishing companies that have pursued scale, that companies have incurred too much debt in pursuing scale, and that scale is expensive to create. We address his first point above in our discussion of the problems with his analysis of market values. His second point is correct for some companies, but not for others. Pursing scale does not necessarily lead to poor financing. Table 4 in our paper showed SBC (which has now merged with Ameritech), a company that has used mergers and acquisitions to become one of the largest telecom carriers in the world. SBC has not developed the financial problems that Curwen identifies. SBC's debt/equity ratio has actually improved since 1999, from 0.91 to 0.86, and the company has maintained a strong AA bond rating since 1998. (Bloomberg, 2001; Dailystocks, 2001; SBC, 2001) Lastly, the scale we discussed is not expensive to create. Curwen appears to confuse scale with bulk. We suggested that size is important when it relates to economies of scale, connectivity, or both. By definition, economies of scale are not expensive. Connectivity is also not expensive if firms choose their size by equating marginal benefit with marginal cost, taking into account management information rents. This concept is well established in economics (Tirole, 1988, pp. 34-51), so we saw no reason to repeat it.

## **Conclusion**

Our exceptions with Curwen's rejoinder result largely from his misreading of our paper and from the empirical evidence he selects. It appears that there is an underlying

disagreement on the weight a researcher should give to recent news. Curwen's dependence on the most recent market valuations and his statements that portions of our work are "already out of date" illustrate his heavy reliance on what was called the newest new thing during the heyday of the dot coms. We disagree with this approach. As dot com entrepreneurs and investors learned, each new market development does not constitute a refutation of everything that has gone on before. We believe that the true lessons of the restructuring of the telecommunications industry are best learned with rigorous examination of relevant theories and careful analysis of data accumulated over time and across companies, countries, and markets.

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