

International Business: a European Perspective

10. Creating Multinationals: the Role of Policy



Judith Clifton

DEPARTMENT OF ECONOMICS

This material is published under:

[Creative Commons BY-NC-SA 4.0](https://creativecommons.org/licenses/by-nc-sa/4.0/)



Cofinanciado por el
programa Erasmus+
de la Unión Europea



**GOBIERNO
de
CANTABRIA**

Introduction

- Policy is sometimes considered in some models of international business

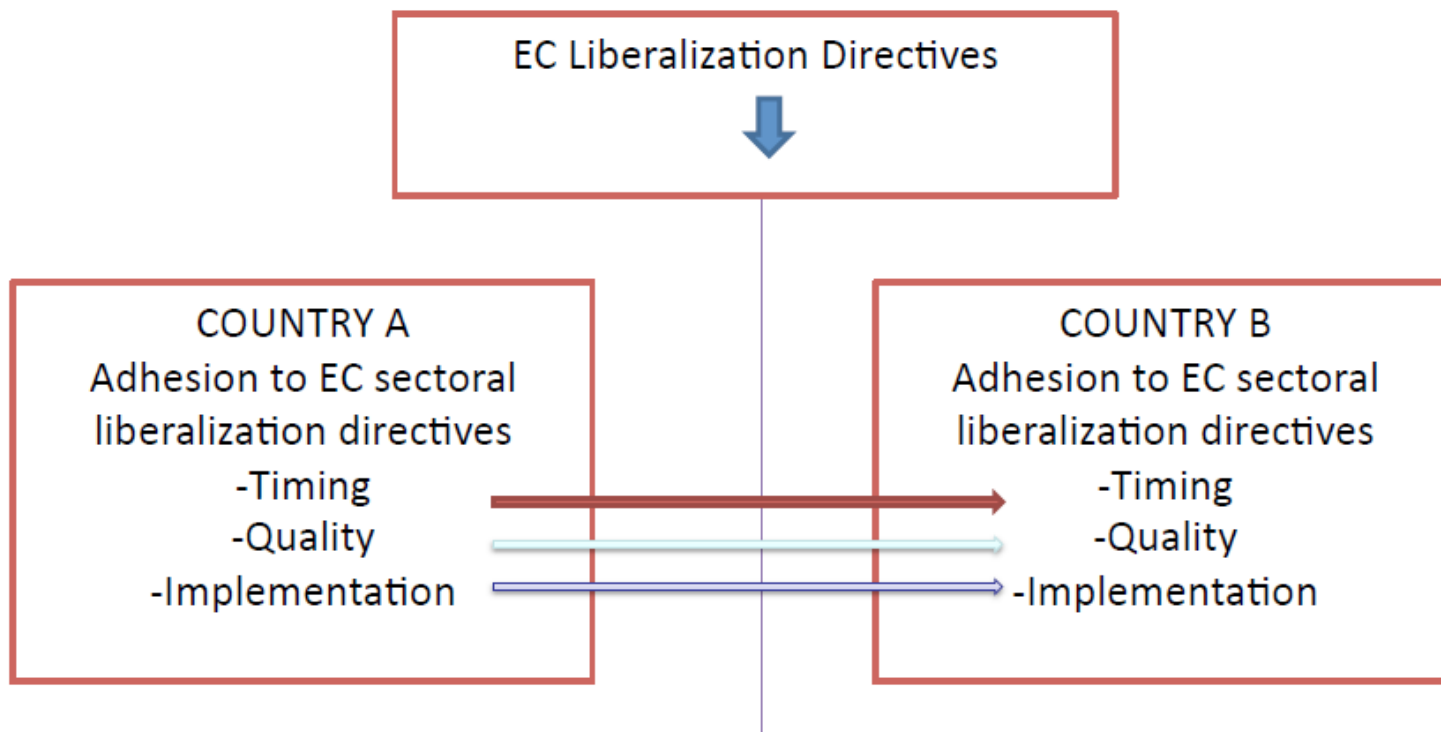
Eg. Dunning's OLI paradigm

- But as regards the internationalization of regulated industries and services, policy takes on a greater importance
- In this class we study the importance of policy as a potential determinant or influencer of internationalization in the case of utilities in Europe.

Making MNCs out of public monopolies: policy drivers in the EU

- Utilities internationalization would not have been possible without privatization and liberalization (abroad)
- Policy change was a prerequisite of internationalization
- But was it a determinant?
- Onlookers claimed some governments were “pampering” firms to remain “national champions” – and delaying reform while enjoying opening up abroad
- Eg tension between UK and France/continent...
- Asymmetrical games can be tested for...

A glimpse of how it happened: policy drivers

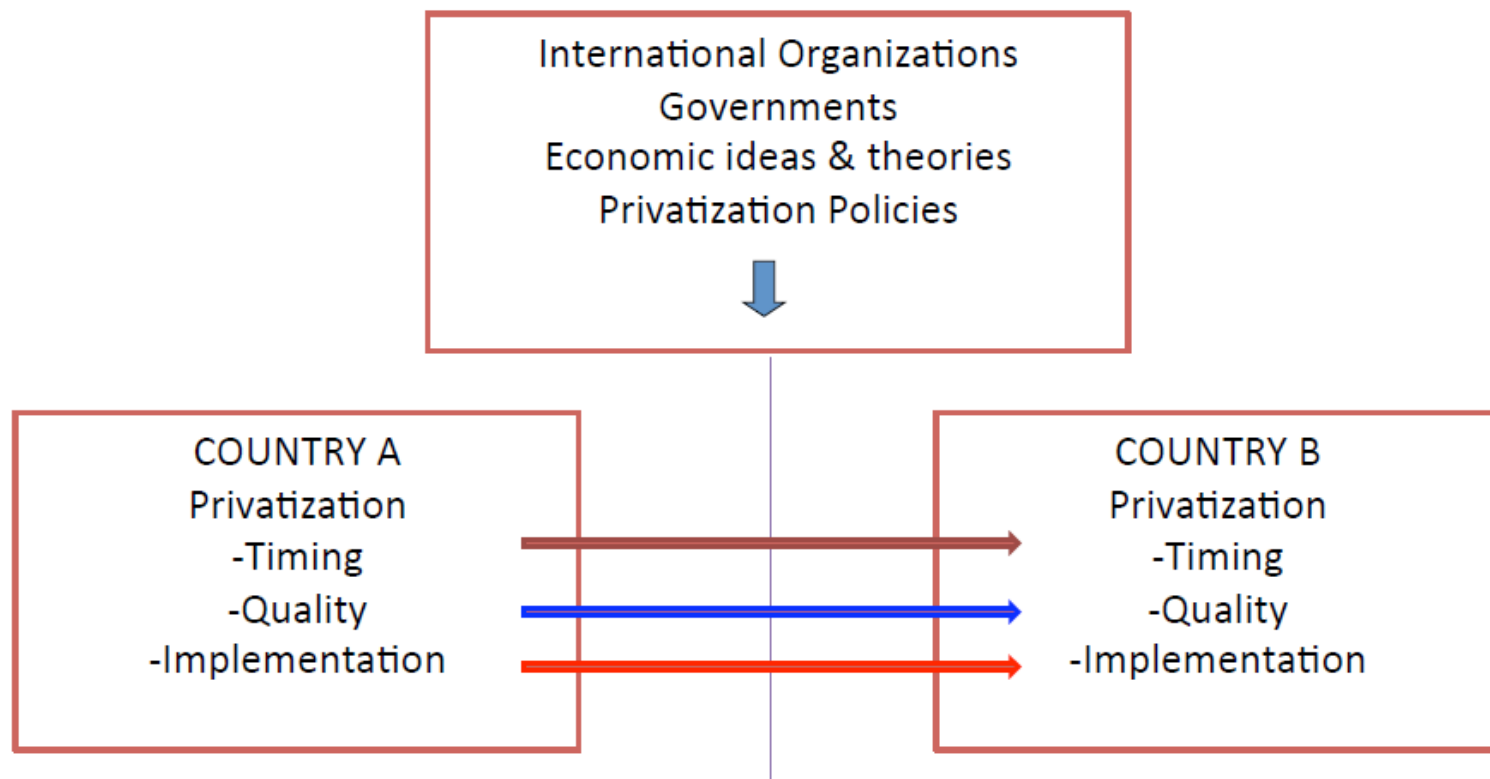


Did the timing, sequence and quality of liberalization policy matter?

A. Would early liberalizing countries have first-mover advantage?

B. Could a relative delay in liberalization facilitate aggressive outward expansion?

A glimpse of how it happened: policy drivers



Did the timing, quality and sequence of privatization matter?

A. Would early privatizers have first-mover advantages?

B. Would a delay in home privatization facilitate outward expansion?

A glimpse of how it happened: policy drivers

Table 1 EU telecoms multinationals: size, internationalization and regulatory reform indicators 1999, 2003 and 2006

Company	Country	Revenues (1,000 euros)			Employees (1,000)			Internationalization			Entry regulation			Market structure			Privatization		
		1999	2003	2006	1999	2003	2006	1999	2003	2006	1999	2003	2006	1999	2003	2006	1999	2003	2006
Deutsche Telekom	Germany	35,325	62,739	77,069	203,268	251,263	248,480	8	38	47	100	100	100	51	64	69	41	57	63
Telefónica	Spain	24,458	31,910	66,459	146,619	221,657	232,996	58	38	62	100	100	100	30	39	44	100	100	100
France Telecom	France	29,014	51,821	4,952	174,282	148,288	191,036	13	41	47	100	100	100	39	56	60	39	41	57
Telecom Italia	Italy	29,425	35,051	40,052	122,682	93,187	83,209	6	20	26	100	100	100	30	49	54	96	100	100
BT	UK	35,438	30,359	35,937	136,800	99,900	106,204	7	7	15	100	100	100	63	77	72	100	100	100
KPN Telecom	Netherlands	9,729	14,502	15,126	38,550	31,267	26,287	9	20	29	100	100	100	35	64	52	56	81	92
Telenor	Norway	4,291	7,503	14,201	23,470	26,694	35,600	17	41	64	100	100	100	23	47	49	11	38	46
TeliaSonera	Sweden	8,149	10,108	12,342	40,155	19,450	28,528	10	49	60	100	100	100	36	56	62	15	54	51
TDC	Denmark	5,765	7,945	8,390	17,464	24,872	19,010	42	53	48	100	100	100	56	64	61	100	100	100
Portugal Telecom	Portugal	3,429	6,490	8,235	16,188	19,207	32,058	9	24	37	33	100	100	21	34	48	88	94	93
OTE	Greece	3,622	5,522	7,768	21,588	17,169	17,782	0	19	26	33	100	100	19	50	53	42	66	72
Telekom Austria	Austria	3,966	4,460	5,472	19,347	13,890	15,428	0	11	32	100	100	100	28	66	67	13	53	75
Mean		16,051	22,367	29,667	80,034	80,570	86,385	14.9	30.1	41.1	88.9	100	100	35.9	55.5	57.6	58.2	73.6	79.0
Standard Deviation		13,387	19,796	26,493	70,804	84,511	88,366	17.4	15.1	16.0	26.0	0	0	14.0	12.3	8.9	36.6	24.7	20.9

Sources: Elaborated by the authors based on OECD (2009).

Source: Clifton, Díaz-Fuentes and Revuelta (2010) The political economy of telecoms and electricity internationalization in the single market. *Journal of European Economic Policy*, 17(7), 988-1006,
<http://www.tandfonline.com/doi/full/10.1080/13501763.2010.499229#.UoJSkSfRLBc>

A glimpse of how it happened: policy drivers

Table 2 EU electricity multinationals: size, internationalization and regulatory reform indicators 1999, 2003 and 2006

Company	Country	Revenues (1,000 euros)			Employees (1,000)			Internationalization			Entry regulation			Vertical Integration			Privatization		
		1999	2003	2006	1999	2003	2006	1999	2003	2006	1999	2003	2006	1999	2003	2006	1999	2003	2006
E.ON	Germany	52,016	47,616	72,408	132,930	64,969	80,453	48	41	47	50	83	100	M	M	M	100	100	100
EDF	France	32,057	44,919	60,493	135,448	163,694	156,524	18	29	47	28	94	94	I	I	M	0	0	25
RWE	Germany	45,671	47,470	43,076	155,697	139,535	65,910	23	44	48	50	83	100	M	M	M	0	0	25
Enel ++	Italy	20,933	30,345	38,513	78,511	64,770	60,085	0	5	14	33	61	94	I	U	U	0	25	50
Endesa ++	Spain	13,495	16,644	20,774	34,930	26,600	26,948	31	39	48	94	100	100	M	U	U	75	75	75
Electrabel	Belgium	5,859	10,988	14,051	16,439	17,360	16,585	n.a.	28	40	17	61	61	I	M	M	75	75	75
Iberdrola *	Spain	7,504	10,903	11,253	12,653	13,042	16,969	0	12	18	94	100	100	M	U	U	75	75	75
Scottish Power*	UK	6,247	7,626	8,037	15,932	15,490	9,953	0	59	47	100	100	100	U	U	U	100	100	100
Vattenfall	Sweden	3,268	12,538	16,153	7,991	35,296	32,308	6	64	60	100	100	100	M	M	M	0	0	0
EnBW	Germany	4,470	11,300	13,755	12,581	34,719	20,265	9	12	7	50	83	100	M	M	M	0	0	25
National Grid	UK	2,299	13,592	13,603	3,628	28,940	20,529	0	46	46	100	100	100	U	U	U	100	100	100
Unión Fenosa	Spain	3,270	5,864	6,057	10,785	21,269	17,765	9	34	34	94	100	100	M	U	U	75	75	75
EDP	Portugal	3,954	8,030	9,390	13,992	17,388	13,333	2	19	39	28	100	100	M	M	M	50	50	50
Essent	Netherland	5,164	8,112	6,663	9,852	12,206	10,421	0	18	23	94	100	100	M	M	U	0	0	0
Dong Energy	Denmark	915	2,489	4,780	572	1,125	2,944	0	30	33	94	100	100	I	U	U	25	25	25
Fortum	Finland	2,448	4,812	4,571	17,461	13,343	8,910	32	64	73	100	100	100	M	M	M	50	50	50
EVN	Austria	1,116	1,340	2,233	2,221	2,608	9,535	0	9	46	33	100	100	I	M	U	25	25	25
Mean		12,393	16,740	20,342	38,919	39,550	33,496	11.1	32.5	39.4	68.3	92.2	97.1				44.1	45.6	51.5
Standard Deviation		15,920	15,683	20,737	52,160	46,021	38,647	15.0	18.9	16.7	32.4	13.3	9.4				40.0	38.8	33.6

Notes: U=Unbundled; M=Mixed; I=Integrated.

++ ENEL takeover Endesa in March 2007

* Iberdrola takeover Scottish Power in 2006

Sources: Elaborated by the authors based on OECD (2009).

Source: Clifton, Díaz-Fuentes and Revuelta (2010) The political economy of telecoms and electricity internationalization in the single market. *Journal of European Economic Policy*, 17(7), 988-1006,
<http://www.tandfonline.com/doi/full/10.1080/13501763.2010.499229#.UoJSkSfRLBc>

A glimpse of how it happened: policy drivers

- Finding no correlations between the timing and depth of policy change we use cluster analysis to search for patterns in incumbent behavior

Table 3 Cluster membership of EU telecoms multinationals: Internationalization and liberalization (market entry and market structure)

	Internationalization and market entry 1999	Internationalization and market structure		
		1999	2003	2006
Deutsche Telekom	3	3	4	4
Telefónica	4	2	2	2
France Telecom	3	1	4	4
Telecom Italia	3	1	1	1
BT	3	3	3	3
KPN Telecom	3	1	3	1
Telenor	3	1	2	2
TeliaSonera	3	1	4	4
TDC	4	4	4	4
Portugal Telecom	1	1	1	1
OTE	1	1	1	1
Telekom Austria	3	1	3	4
Valid cases	12	12	12	12

Notes: Based on Squared Euclidean Distance and Average Distance among groups.

- 1 = Low internationalization and low liberalization
 2 = High internationalization and low liberalization
 3 = Low internationalization and high liberalization
 4 = High internationalization and high liberalization

Table 4 Cluster membership of EU electricity multinationals: Internationalization, entry regulation and vertical integration

	Internationalization and entry regulation			Internationalization and vertical integration		
	1999	2003	2006	1999	2003	2006
E.ON	2	4	4	1	1	1
EDF	1	4	4	2	2	1
RWE	1	4	4	1	1	1
Enel ++	1	1	3	2	3	3
Endesa ++	4	4	4	1	4	4
Electrabel	0	1	2		3	1
Iberdrola *	3	3	3	3	3	3
Scottish Power*	3	4	4	3	4	4
Vattenfall	3	4	4	3	1	1
EnBW	1	3	3	3	3	2
National Grid	3	4	4	3	4	4
Unión Fenosa	3	4	4	3	4	4
EDP	1	3	4	3	3	1
Essent	3	3	3	3	3	3
Dong Energy	3	4	4	2	4	4
Fortum	4	4	4	1	1	1
EVN	1	3	4	2	3	4
Valid cases	16	17	17	16	17	17

Notes: ++ ENEL takeover Endesa in March 2007.

* Iberdrola takeover Scottish Power in 2006.

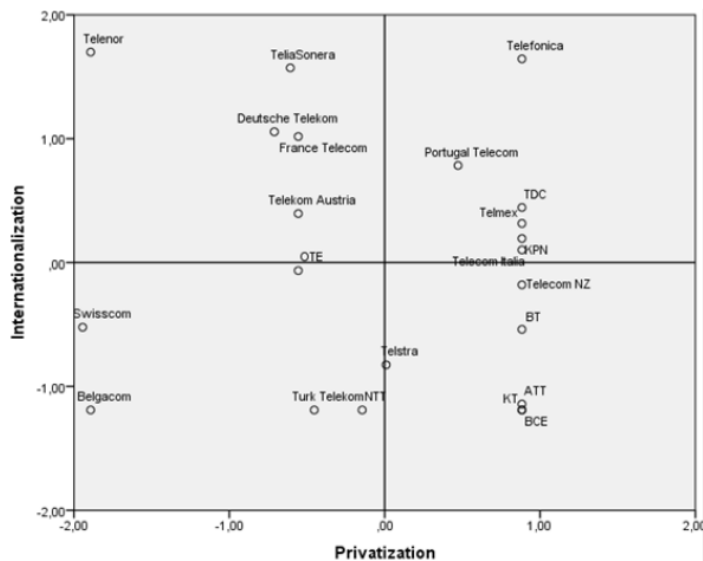
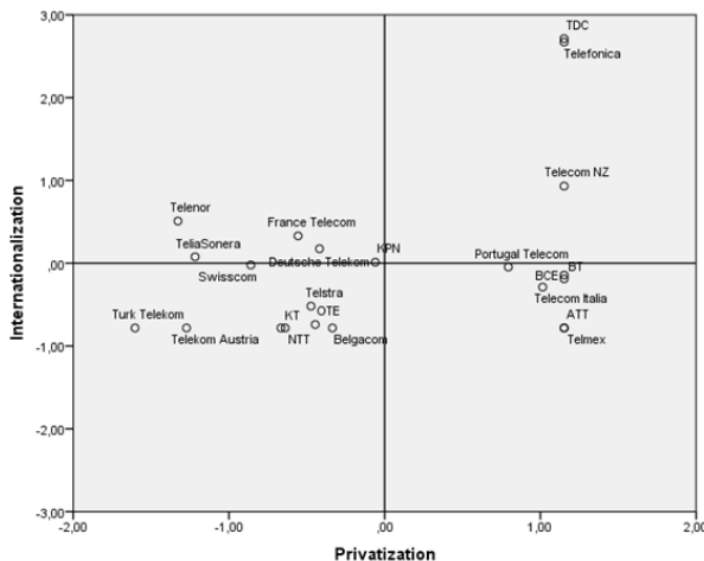
Based on Squared Euclidean Distance and Average Distance among groups.

Internationalization and entry regulation: 1 = Low internationalization and low liberalization; 2 = High internationalization and low liberalization; 3 = Low internationalization and high liberalization; 4 = High internationalization and high liberalization.

Internationalization and vertical integration: 1 = High international and high integration; 2 = Low international and high integration; 3 = Low international and low integration; 4 = High international and low integration.

Source: Clifton, Díaz-Fuentes and Revuelta (2010) The political economy of telecoms and electricity internationalization in the single market. Journal of European Economic Policy, 17(7), 988-1006,
<http://www.tandfonline.com/doi/full/10.1080/13501763.2010.499229#.UoJSkSfRLBc>

A glimpse of how it happened: policy drivers



We compare the extent of privatization in 1999 and 2007 with extent of internationalization for OECD telecoms utility MNC

Clusters:

Policy change enabled; firm-level explanation.

Source. Alonso, et al., (2013) The race for international markets: Were privatized telecommunications incumbents more successful than their public counterparts? International Review of Applied Economics, 27(2) 215-236.

<http://www.tandfonline.com/doi/full/10.1080/02692171.2012.734791#.UoJTQCfRLBc>

Key reading

- Clifton, J., Díaz-Fuentes, D., & Revuelta, J. (2010). The political economy of telecoms and electricity internationalization in the single market. *Journal of European Public Policy*, 17(7), 988-1006.
DOI: [10.1080/13501763.2010.499229](https://doi.org/10.1080/13501763.2010.499229)