AMERICAN UNIVERSITY OF BEIRUT

TELECOM PRIVATIZATION IN THE MENA REGION: A CLOSER LOOK AT ZAIN'S BUSINESS TRANSFORMATION

by
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A project
submitted in partial fulfillment of the requirements
for the degree of Master of Business Administration
to the Suliman S. Olayan School of Business
at the American University of Beirut

Beirut, Lebanon
June 2010

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Date of project presentation: June 8th, 2010

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ACKNOWLEDGEMENTS

I dedicate this project to my parents and my family for all the love, care, support and encouragement they have given me throughout my life.

A special thanks to Dr. Yehia Kamel and Dr. Ibrahim Jamali for their positive support and helpful feedback during the project.

A word of thanks to all Zain staff that I interviewed and provided me with sufficient information to complete the project.

Last but not least, a word of gratitude to all my colleagues and friends that supported and empowered me during my MBA.

AN ABSTRACT OF THE PROJECT OF

Abraham Agop Agopian for Master of Business Administration
Major: Business Administration

Title: Telecom Privatization in The MENA Region: A Closer Look at ZAIN's Business Transformation.

This paper provides a better understanding and a general synopsis about privatization in general. It also provides an overview about privatization in telecommunications, inspects factors that impact privatization in telecommunications, and briefly examines the major telecommunication operators in the MENA region.

Considering that most research has shown that privatization yields performance improvements, a privatized firm is thus considered as a firm exhibiting a corporate turnaround. Therefore, corporate turnaround and business transformation literature, models and theories are also examined.

The research then moves to study the corporate turnaround case of Zain (previously MTC), a Kuwaiti based telecom operator that went private in the year 2000 and initiated a business transformation through an expansion strategy that kicked off in the year 2003.

The study will cover the change the firm went through from 2000 to 2009, conduct a financial analysis of the firm in line with the major change initiatives or actions taking place and finally link Zain's corporate change to the discussed theories and models.

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To
My Beloved Grandfather
"God Bless his Soul"

CHAPTER I

INTRODUCTION

Telecommunications has been one of the most rapidly growing sectors in the modern economy and it yet has to achieve its full potential. More specifically, this rapid growth has been mostly concentrated in the wireless mobile business. The Middle East and North Africa (MENA) region is a prime example of this growth, as the telecommunication sectors in most of the countries in this region have shown substantial increases in number of subscribers and penetration rates (ITU 2009). By and large, this advancement has been attributed to the wave of privatization of the telecommunication industries in many MENA countries. Privatization often provokes intense political debate and frequently faces vehement opposition. Despite the political objections, most research has supported the fact that privatization usually enhances the performance of the sector (Ehrlich *et al.* 1994, Majumdar 1996, Tian 2000). Those who make the case against privatization usually argue that it removes a source of income for the government while ignoring the potential economic benefits of privatization.

Although research has demonstrated that private firms outperform state-owned ones under the same circumstances. However, previous research does not directly address the reason(s) behind the improvements in the post privatization performance. After the privatization of a firm or the sale of a telecom license, the ultimate goal of the new owners is to maximize the return on their investment. A new management team is appointed to initiate change within the organization, a change aimed at transforming an under average or average performing firm into an overachieving, growth oriented one. Change management refers to this change as a corporate turnaround that takes place

through business transformation. This paper will closely examine corporate turnarounds in the telecom sector. I will start with a review of the literature on privatization to address its objectives, its role in performance improvement, the types of privatization, the regulatory issues, and some important factors to consider such as sequencing and exclusivity periods. I will then move on to provide an overview of the telecom industry in the MENA region. Next, I will analyze the financial results of ZAIN in comparison to a sample of comparable telecom operators in the region and the world. Finally, I will discuss corporate turnarounds and the strategies that accompany their implementation in order to analyze ZAIN Kuwait's post-privatization turnaround and link it to the discussed models and theories.

CHAPTER II

PRIVATIZATION

A. Background

Contrary to popular belief, privatization in the telecommunications sector is not a new concept; in fact, the telecommunications sector was highly competitive in the nineteenth century (Wallsten 2001). Soon after that, governments began to view telecom as a natural monopoly that can be provided by a single firm and yet at the lowest cost. This led the majority of emerging countries to nationalize their telecommunications sectors in the 1960s at the expense of services quality (Wallsten 2001). This is evidenced by the fact that by 1981, emerging countries in Africa and Latin America averaged only 0.8 and 5.5 telephone lines per hundred people, respectively, while the United States averaged 83.7 telephone lines per hundred people (Saunders *et al.* 1983).

The 1980s marked the beginning of a different trend, that of denationalization (Wallsten 2001). Although many factors lead to this development, Scott Wallsten (2001) attributes it to three major contributing factors. The first factor was the extremely low performance of government-owned telecom companies measured by both service and financial indicators. Another factor was the pressure by international organizations, such as the World Bank, which required reforms such as privatization before granting development loans to any nation. The final factor was the example of denationalization set by the British government, spearheaded by Prime Minister Margaret Thatcher in 1979. In fact, it was at that time that the term “privatization” was first used (Wallsten 2001).

Privatization is broadly defined as "the deliberate sale by a government of state-owned enterprises or assets to private economic agents" (Megginson and Netter 2001). Privatization has garnered much attention lately, leading some researchers to believe that governments' involvement in the world economy has come to an end (Megginson and Netter 2001). Although privatization has become increasingly important since its introduction by the UK government back in the 1979 and though the 1980s, governments still wield significant economic power (Megginson and Netter 2001).

Pricewaterhouse Coopers (1989a,b) state that privatization should achieve the following objectives (Megginson and Netter 2001):

- Raise revenue for the government
- Promote economic efficiency
- Reduce government interference in the economy
- Promote wider share ownership
- Provide the opportunity to introduce competition
- Subject State-Owned Enterprises (SOE) to market discipline

B. Why Do Governments Privatize?

Many economists debate whether privatization is a beneficial economic decision (Megginson and Netter 2001). Some researchers believe that the upward trend in privatizations all over the globe is an indicator that privatization is the better option (Megginson and Netter 2001). Nevertheless, the rapid increase in privatizations is a not enough proof of which is the better option. Governments privatize for many reasons, which will be discussed in the following sections.

1. Efficiency of Privatized Firms

In general, governments usually tend to identify natural and other monopolies, externalities (e.g., pollution control), and public goods or services production as areas they need to own or regulate. Major efficiency gains should accompany the change from state to private competitive ownership of these SOEs (Sheshinski and Lopez-Calva 1999). Welfare economics relates the degree of privatization or government control to the degree of government or market failure, respectively (Megginson and Netter 2001). In other words, the impact of privatization is most pronounced when the government's role in competitive markets become more trivial and vice versa. Sometimes the impact of competition is so powerful that SOEs are forced to become more efficient without privatizing (Megginson and Netter 2001). Although the validity for privatizing natural monopolies and public goods production is less gripping due to weaker competitive forces, Sheifer (1998) argued that even in those markets private ownership is a better option as they yield a more efficient firm (Megginson and Netter 2001).

2. Government Objectives and Politics

Another fact that states base privatization decisions on is the inability of governments to adhere to a well defined policy, which hinders its ability to efficiently operate the firms it owns. In general, the objectives of an SOE rarely include profit maximization; conversely, privately held enterprises prioritize wealth maximization for their shareholders, which is a natural driver to achieve efficiency. Even when governments seek profit maximization and strive towards efficiency, the SOE's inability to tie managers' performance to profits makes its objective unattainable (Megginson and Netter 2001). Shleifer (1998) clearly states that due to diffuse of ownership in SOEs, it is extremely difficult to offer managers contracts that tie their incentives to

returns on their performance (such as profit sharing programs). Therefore, and since managers are monitors of performance, private ownership is more likely to yield better results since managers are compensated more properly (Megginson and Netter 2001).

3. Ownership Structure

The ownership structure of private firms makes it hard for governments to interfere with the firm's operations (Megginson and Netter 2001). Although governments technically can interfere in any firm, whether public or private, it is more costly to do so in privately held firms (Megginson and Netter 2001). In other words, "to the extent that government intervention has greater costs than benefits, private ownership is preferred to public ownership" (Megginson and Netter 2001).

4. The Bankruptcy Taboo

Bankruptcy in large SOEs is proscribed, and thus it is very likely that governments will bail out any SOE that is in danger of failing. This is a major cause of inefficiency because it means that SOEs operate under soft budget constraints and thus are unlikely to be optimized (Megginson and Netter 2001). Several researchers have noted that these soft budget constraints resulted in inefficient operations of communist SOEs. They also claim that even when governments impose tough budget constraints, those measures are usually not very effective (Megginson and Netter 2001). In contrast, private firms are under tight budgets due to the fact that investors demand a return, which drives efficient operations (Megginson and Netter 2001).

5. Cash Income to the State

In addition to the factors discussed in the previous section, when governments

sell, they receive huge cash amounts for selling operator licenses, especially if it is selling an incumbent license. Thus, privatization can raise enough money to the government to reduce its fiscal deficit, thus causing efficiency at the macroeconomic level. This is supported by the fact that privatization of certain sectors can help build up "products and securities markets" through competition, hereby causing efficiency in those markets (Megginson and Netter 2001).

Clearly, governments turn to the privatization due to several factors; the common result of these factors is efficiency in the privatized sector. It is important to note that even though privatization may lead to such improvements in efficiency, its effects may vary from one economy to another depending on the method of implementation and the specifics of the economy.

C. Evidence on Efficiency in Privatization: State versus Private Ownership

Many studies have engaged in comparing the efficiency of state-owned versus privately owned firms. The most common technique used by researchers has been to compare the performance of each type of firm to the other. Although this technique is a very logical straight forward one, it does have some limitations. Those limitations, mainly methodological, revolve around selecting the right sample of firms and benchmarks in addition to the fact that the ownership structure of each selected firm has been designed based on a perceived market structure. Thus, performance measures are affected by those market specifics and may produce biased results (Megginson and Netter 2001).

Nonetheless, many studies have been successful in giving us some insight through comparing the performance efficiency of privately held versus state-owned companies. A comprehensive summary of some empirical results is given below.

A number of studies have been made on the effect of privatization and liberalization in the telecommunications sector. According to Megginson and Netter (2001), telecom has benefited from privatization through increased teledensity (the number of lines per 100 people), increased efficiency, better service quality, and decreased pricing. In other words, privatization in telecom has benefited both the firms and the consumers.

Ehrlich *et al.* (1994) focused on a sample of 23 international airlines of different and evolving ownership structures and were able to collect comparable data related to cost, productivity, and ownership. In the paper, they were able to develop a model that compared the productivity growth and cost evolution of these firms according to their ownership structures. Ehrlich *et al.* (1994) also claim that throughout their model, they were able to remove the effects resulting from change in ownership structures on short-term productivity changes from the long-term impact on the rate of growth in productivity, thus providing the study with a dynamic approach on changes in ownership. The results showed that, in the long run, privately owned firms had higher rates of growth in productivity (increased by 1.6-2% per year) and decreasing costs (declined by 1.7-1.9% per year). They also showed that competition and regulation did not influence those differences. In addition, the results also showed that any partial change from state to private ownership seems to have had only minor effects on productivity, thus concluding that only complete privatization can be effective. The paper uses sufficient data and literature on estimating productivity determinants combined with advanced econometrics and other controls to gain accurate results on their study topic. Nevertheless, the fact that they used old data on one industry, the airline industry, might be a negative aspect for their work (Megginson and Netter 2001).

Another study by Majumdar (1996) attempted to highlight efficiency

differences between state-owned, mixed and private enterprises in India. The results showed private and mixed firms superiority over state-owned firms with efficiency scores of 0.975, 0.92 and 0.658, respectively. The drawbacks of Majumdar's study are that he used single-country survey data and he was unable to identify the areas in which private firms perform better than state-owned ones (Megginson and Netter 2001).

George Tian (2000) examined 825 companies listed on the Shanghai Stock Exchanges, among which 513 had mixed ownership and 312 were privately owned. His results showed that privately owned enterprises perform better than the mixed ones but its valuation increases the larger the government share ownership is (Megginson and Netter 2001).

The discussed empirical research so far has relied on cross-sectional time series data. Another method that highlights other differences that do not show in the previous approach is to study multi-industry, multi-national time series. This approach was adopted by Boardman and Vining (1989) whereby they studied the performance of the largest 500 non-U.S. industrial companies for the year 1983. Using four ratios of profitability and two efficiency measures, they were able to illustrate that both government-owned and mixed firms are "significantly less profitable and productive than privately owned firms". They also concluded that full private control is indispensable to have significant improvement in efficiency as their study also shows that mixed firms do not perform better than government-owned ones.

Boardman and Vining (1992) themselves offer another comparative study using a sample of Canadian firms. The study mainly yielded similar findings to that of Boardman and Vining (1989), albeit with one exception: the finding that mixed ownership firms perform better than state-owned, yet it still showed that private firms performed better than both (Megginson and Netter 2001).

A similar approach was adopted by Dewenter and Malatesta (2001) when studying a data panel of 1,369 firm years including 147 state-owned firms. The study aimed to determine the differences in profitability, labor intensity, and debt levels between state-owned and private firms in the 500 largest non-US firms as reported in *Fortune Magazine* in the years 1975, 1985, and 1995. The results were consistent with other studies where strong evidence for higher profitability in private firms was clear and significant. In addition, the study showed that privately held firms had lower debt levels and their processes were less labor-intensive than the government-owned ones (Megginson and Netter 2001).

Another research paper by Frydman, Gray, Hessel and Rapaczynski (1999) explored four performance measures of state-owned and private companies using data on firms from the transition economies of Central Europe while trying to control for selection bias. While using survey data for 506 mid-sized firms from the Czech Republic, Hungary and Poland manufacturing sectors, they compared firm performance through sales revenues, employment, productivity (revenue per employee) and cost of material per unit of revenue. Again, they were able to show that privatized companies do perform better than government-owned ones and that this improvement in performance was mainly an improvement in revenue rather than in cost and in cases where the firm is sold to outside investors. The extra dimension in their study is that Frydman *et al.* (1999) tried to control for selection bias in a number of ways. First, they used a model where they controlled the selection bias driven by hidden firm characteristics causing fixed performance results. They also contrasted the performance of firms privatized in one period to those privatized in another time period using two different periods in order to extrapolate how the privatized firms would have performed if they had not been sold to private investors. The last control mechanism used by

Frydman *et al.* (1999) was to avoid the probability that better firms were originally chosen for privatization through comparing performance of the same firm prior to and after privatization. Additionally, they also showed that the positive effects of privatization were restricted only to certain performance measures (such as revenue) and only in cases where the firm was sold to outside investors (Megginson and Netter 2001).

Finally, contrary to the results discussed above showing the inefficiency of state-owned firms and in an attempt to answer the question set forth by Sam Peltzman (1971) "If a privately owned firm is socialized, and nothing else happens, how will the ownership alone affect the firm's behavior?" Kole and Mulherin (1997) studied 17 companies that had major stakes owned by German or Japanese investors whereupon the outbreak of World War II, the U.S. government assumed ownership of somewhere between 35% and 100% of stock equity. Kole and Mulherin (1997) show that no major performance variation between the private and state ownership periods of the studied firms, of which the researchers found industry controls for five firms, thus leaving us with a controlled selection of 61% book value of the original sample. Kole and Mulherin's study showed that sometimes, when the surroundings are competitive, the state is a silent investor and has no political targets and other issues drive firm performance and state owned enterprises may perform as good as privately held firms. Nevertheless, another important factor to consider is the fact that all of those firms were eventually privatized and thus the state had to keep them running efficiently to maintain and maximize their value. Although Kole and Mulherin's study is very interesting and shows the other side of the coin, the sample set of five firms is small and very specific, a drawback stated by the researchers themselves (Megginson and Netter 2001).

In conclusion, the vast majority of research has shown that privatization is a

very viable and important option for governments to adopt. Setting aside the sales revenue that a state receives upon privatization, other important factors are encouraging for governments to implement privatization on large state-owned firms, the most important of which is the efficiency private investors can bring to the sector. This efficiency is brought about through competition and is translated into higher revenue figures, cost efficiency, better service and lower labor intensity. Ultimately, firms will be making more profits, resulting in added value for the state due to the income tax generated from increased income for the private firm.

D. Alternatives to Privatization

There are two expert views explaining what drives performance improvement and efficiency in firms. One point of view states that competition and deregulation are more influential than change in ownership of firms, while another stresses the necessity of privatization to achieve such development in performance. Some evidence does exist from some countries that were able to improve the performance of government-owned enterprises through methods other than privatization, namely government reforms and incentive contracts (Megginson and Netter 2001).

In January 1990, Poland began a reform strategy labeled the "Big Bang"; namely, these reforms targeted the state-owned sector through price deregulation, establishing foreign competition in several businesses in addition to indicating that rigid monetary and fiscal policies would be implemented. Pinto, Belka and Krajewski (1993) attempted to measure performance improvements following those reforms. The Polish state did not instantly launch privatization plans following the "Big Bang" reforms, yet the research shows that major performance improvements took place in most manufacturing companies. Pinto *et al.* concluded that factors such as tight budget

constraints in the firms, tighter bank lending strategies (triggered by the Poland's tight monetary policy), the state's "no bailout" message, foreign competition (imports), and the state-owned firm's managers' reputation maintenance were the main reasons for the significant improvement in performance of these firms (Megginson and Netter 2001).

Another approach for performance and efficiency enhancement in government-owned entities is to offer employees and their management proper incentive contracts as set forth by Leroy Jones (1991) and supported by the World Bank in the 1980s. This reform strategy has been widely implemented in China in privatization-free surroundings. Several studies have examined the use of such reform in China. McMillan and Naughton (1995) highlight the use of such incentive contracts in the Chinese employment market in the late 1980s with actions such as firing poor performers and profit-linked executive compensation. A study by Groves, Hong, McMillan and Naughton (1994) demonstrated the fact that, after 1978, Chinese firms were given more freedom of action, which allowed them to retain some of the income they generated, increase employee compensation and increase levels of investment in their firm. Through studying the marginal and total factor productivity of 272 Chinese government-owned firms for a period of nine years (1980-1989), Wei Li (1997) was able to show significant improvements in those performance factors, especially over the reform period, making it a clear result of China's economic restructuring. Li (1997) attributed 87% of the said increase in productivity to the improvement in employee incentives and compensation. He does note, however, that his paper may have selection bias concerning his firm sample, the survey, and its respective responses.

On the other hand, Shirley and Xu (1998) reach a conclusion that refutes Li's (1997) results. Shirley and Xu (1998) studied the outcomes of implementing incentive contracts in 12 monopolistic state-owned firms. Their results showed that those

contracts did not affect either profitability or employee productivity. Furthermore, they found some evidence of harmful results on total factor output growth. Shirley and Xu's (1998) conclusion was that the inability of the Chinese government to honor those contracts was the major reason for their failure to achieve the desired improvements in performance. However, their study used a small sample size, making it weak evidence to refute the fact that evidence from China shows that such reforms do result in performance enhancement (Megginson and Netter 2001).

Poland and China's reforms demonstrate that there are some policy alternatives to privatization. Economic reforms, creating a competitive market, tight fiscal and monetary policies, restructuring of firms, improving employee and management incentives and compensation, and giving some managerial power to the state-owned firms are options that can produce desired results of efficiency and improvements. Yet and still, some may argue that such reforms, tied to future privatization implementation, may produce even greater improvements in performance and efficiency.

In addition to the above two alternatives, one option that hasn't been extensively discussed is management agreements. A management agreement is a form of outsourcing where the government hires a telecom operator to manage its network return for a fee. The fee may take up many forms such as fixed fee, fixed fee per subscriber or any combination of revenue sharing schemes. This alternative has been used since the year 2004 in the Lebanese telecom sector where MTC (Zain subsidiary) and Alfa (currently a subsidiary of Orsacom) have been managing two networks.

E. Important Considerations and Privatization Types

1. Factors Considered When Privatizing

One decision a government must make is whether to privatize the firms it

owns. Once this decision is made, an important dilemma arises. How should the state transfer its owned assets to the private investors? In other words, the government must decide on the type of privatization to implement. Several factors, both economic and political, should be considered by the government prior to its decision regarding which privatization method to pursue. These factors, as listed by Megginson and Netter (2001), are outlined below:

- Asset ownership history.
- Financial and competitive position of the firms labeled for sale.
- The state's philosophy regarding markets and regulation.
- The country's historical, current, and future regulatory structure.
- The need to pay off certain significant interest groups throughout the privatization process.
- The state's credibility to follow through with its commitments after the sale through respecting the new investors' property rights.
- The county's capital market conditions and existing corporate governance institutional framework.
- Potential buyers' sophistication.
- The government's openness to foreign ownership of such firms.

2. Types of Privatization

Considering the above factors, including both economic and political aspects combined with the countries' future economic and political aims, several methods of privatization can be considered to cope with those factors and goals. Brada (1996) discussed four general methods of privatization; even though his paper generally

discusses Central and Eastern Europe, these methods (listed below) are comprehensive enough to cover the basics of privatization options a state can consider:

a. Privatization through Restitution

This method is mainly applied in Eastern Europe and is rarely seen other places. This method is used when land or property has been previously confiscated and is later returned to its rightful owners or their successors. Brada (1996) maintains that 10% of the Czech Republic government-owned assets were restitution claims by the citizens.

b. Privatization through Direct Sales of Government Owned Assets (Sale of State Property)

Using this method, the state transfers its owned assets to the new investors in return to a direct cash payment. Brada (1996) divides this method into two types:

- *Direct Sales*: The firm or part of it is sold directly to individuals, existing companies, or a group of investors.
- *Share Issue Privatization (SIP):* Partial or full public share offering of the state's owned stake in the firm. This method is similar to the use of initial public offerings (IPOs) in the private sector sale of company shares. It is important to note that SIPs are usually built to raise cash and as a political response to some of the factors mentioned, whereby IPOs are solely for tailored for cash revenue generation.

c. Mass/Voucher Privatization

In this method, the firm is basically sold to the general public. Vouchers are usually granted or sold at a nominal fee to residents to qualify them for an auction

where they can bid for shares in the enterprises offered for sale. This method has also only been implemented in Eastern and Central Europe, and it usually transfers ownership to the public but rarely changes that actually controls the firm's decision making (Megginson and Netter 2001).

d. Privatization from Below

This privatization approach relies on setting up new private companies, especially in countries that were previously socialist. This method is essential in evolving countries, can be a major driver for economic growth, and has been widely used in emerging economies in China, Central and Eastern European, , Latin America and sub-Saharan Africa (Megginson and Netter 2001).

3. Discussion of Privatization Types

The *Privatization Through Direct Sales of Government Owned Assets* method is by all means the most straightforward, common, and easy-to-implement approach. *Direct Sales* and *SIPs* have accounted for the majority of property value that has been privatized (Megginson and Netter 2001).

Gibbon (1997) was able was able to develop a checklist for governments that wish to privatize using the *Direct Sales* method:

- Setting up the privatization structure such as legislation.
- Providing historical performance measures prior to the sale (financial performance).
- Building necessary regulatory structures and defining the post-sale role of the state in order to have a clear relationship between the government and the new buyers.

Empirical research has explored the choice of privatization approaches, mainly for *Privatization through Direct Sales of Government Owned Assets* and studying the two sub choices between *Direct Sales* and *SIPs*. In a sample of 1,992 privatizations in 92 countries, which generated sales revenue of USD 720 billion for the states, Megginson *et al.* (2000) examined the fact that 767 companies were privatized using SIPs while 1225 were sold using the *Direct Sales* method. They came up with the following conclusions:

- The decision regarding which approach to be used was influenced by the capital market structure, political environment, company specific issues.
- SIPs are used more frequently in countries with less well-developed capital markets to trigger its development and when income is fairly distributed.
- *Direct Sales* is more prominent in countries where states are more reliable in committing to the property rights of investors.
- Governments are more likely to privatize better-performing state-owned firms through SIPs.

In a related paper, Bortolotti, Fantini and Siniscalco (1999a) measure what determines the chunk of sales revenue generated from privatization using SIPs from a sample of 49 countries. Their results show that countries that are in deficit and are more conservative are more likely to use the SIP approach, while French civil law countries (e.g., previous French colonies) are less inclined to use SIPs.

The other three methods are case-specific and require certain conditions in order to be executed. The four methods discussed above are not the only privatization techniques available, but to some extent, they do cover the basic and most important features of privatization approaches.

F. Restructuring and Regulation in Telecom

Decisions other than the choice of privatization method and the corresponding pricing of assets should be considered. The issues of restructuring the state-owned firms prior to divesting, sequencing, and staging of the privatization are very complex in nature and could have a major impact on the sale price of the firm sold.

Theoretical models have maintained the importance of staging and sequencing for a number of reasons, whether to build up the firm's reputation in the buyer's eyes, to increase public support for the sale, or to be able to spot bidders that will maximize performance of the firm (Megginson and Netter 2001).

Additionally, restructuring is an issue that should be looked into prior to the sale. World Bank experts believe that state-owned firms should be restructured by the government prior to its sale, claiming that the government, unlike private owners, has the capacity to mitigate the financial impact of laying off workers through unemployment and pension plans (Nellis and Kikeri 1989). The United Kingdom government typically restructured government-owned firms prior to sale in order to provide the new investors with a "clean slate" (Megginson and Netter 2001). Later on, Nellis, Kikeri and Shirley (1992) stated small- and medium-sized state-owned firms should be divested as is, at the best achievable price, and as fast as possible, adding that the assessment for further investment should be made by the new owners (Megginson and Netter 2001).

The research performed by Lopez-de-Silanes (1997) focused on whether restructuring prior to privatization improves the nets sale price for the government. He found out that restructuring does not improve the sale price. However, the fact that he used a small sample of banks limits the usefulness of his findings (Megginson and Netter 2001).

Restructuring, sequencing, and staging are important factors and should be considered before making any privatization decision. Further evidence related to these factors will be discussed in the following section.

1. Sequencing of the Sale

There are several reasons why states choose to sell the entities they own to private investors. Mainly, governments aim to improve the firm's service quality and efficiency, curb the subsidies provided, and generate cash for the state.

An important perspective to consider is how privatization and reform fit into each other and how reforms should be sequenced prior to privatization. Early views focused on reforms in corporate governance and macroeconomic issues, ignoring microeconomic structure and institutional issues, such as competition and regulation. It was only by the end of the 1990s that regulators acknowledged their mistake; since then, setting a regulatory agenda has been a major consideration for reform prior to any privatization (Wallsten 2002).

In the early 1990s, the dominant consensus was that governments should privatize large SOEs as quickly as possible prior to the structuring of the firm (Blanchard *et al.* 1991). Experts believed that quick privatization measures are necessary to "combat the inevitable social, political, and economic problems associated with lack of corporate governance" (Lipton and Sachs 1990).

The main concern was corporate governance, which was triggered by the inefficiency and corruption of the SOEs and their managers. Therefore, privatization was needed to change SOEs into efficiently performing firms, i.e., new investors would reform the firm to produce such results. In addition, this sale would generate a large amount of cash that would ease economic pressures on the government.

Another point of view started emerging, the view that privatization was being implemented way too quickly. Roland (1994) believed that privatization should move slower to avoid political problems. In addition, Newberry (1991) stated that privatizing sectors that are monopolistic could cause problems; thus, those monopolies should be broken prior to its privatization. The fact that those monopolies were privatized with no proper regulators to smooth the progress of competition made some doubtful that any change would take place (Wallsten 2002). On the other hand, proponents of quick deregulation held that any establishment of a regulator could create a new means for the state to regain its role in interfering and controlling the market (Wallsten 2002).

Since monopolistic firms prefer maintaining their monopolistic status rather than creating a free market economy, sequencing through building regulatory authorities prior to privatization became an extremely important issue. The fact that many countries realized that their privatization programs crafted a big private monopoly instead of promote competition made sequencing a very necessary regulatory consideration to be discussed (Wallsten 2002).

2. Regulation in Telecom – Sequencing Empirical Evidence

Come the 1980, practically all countries except those from North America had a monopolistic telecommunications sector run by the government and no external regulator monitoring it. As time passed, privatization started picking up and by 1999, some 90 countries around the world had already either fully or partially privatized their telecommunications sectors. In addition, 95 countries had established separate regulatory bodies (International Telecommunications Union 1999).

Research shows that the privatization of state-owned sectors leads to improvements in performance. After studying the financial and operating performances

of 61 firms from 32 sectors, including telecommunications, in 18 countries, Megginson *et al.* (1994) revealed that sales, profits, investment, and employment increased after privatization.

Although privatization does bring along important improvements, competition on the other hand yields much more benefits. This is due to the fact any sort of monopoly has minimal incentive for service upgrades and price cutting compared to companies that engage in competition. This has been highlighted in several research papers. Li and Xu (2001), McNary (2001), Petrazzini (1996b), Ros (1999) and Wallsten (2001a) have found that "competition drives the biggest improvements in the sector (Wallsten 2002).

Regulation topics have been discussed less frequently than privatization in the research literature (Wallsten 2002). One of the pioneers, Wellenius *et al.* (1992) discussed some case studies and found out that countries that privatized their telecommunications companies rapidly usually constructed regulatory bodies much more slowly.

Another research by Galal and Nauriyal (1995) examined the ability of countries to achieve regulatory objectives, namely "commitment, information asymmetry, and pricing issues". This resulted in three findings: 1) Chile, the country that was able to achieve all the objectives, experienced the biggest performance improvement, 2) the countries that achieved some, but not all, of the objectives experienced a mixture of success, 3) the Philippines which did not achieve those objectives, experienced the worst performance improvements.

Another study by Wallsten (2001a) empirically investigated a sample of 30 countries in Africa and Latin America and found that privatization alone was not correlated with sector advancement, whereas a combination of both privatization and

proper regulation was correlated with sector advancement (Wallsten 2002). In conclusion, in conjunctions with privatization, regulation is a very critical aspect for the improvement of performance of the telecommunications sector. Furthermore, the order in which the regulatory reforms are implemented alongside privatization is another important issue. Any new entrant will need to interconnect with the existing incumbent in order to reach its subscribers and compete, while the latter's preference is not to allow such interconnection to preserve its monopolistic market and thus its profits. Therefore, the establishment of a regulatory authority prior to privatization may be a necessary measure in order to help lay down the rules of competition between firms, promote fair competition, and, in turn, achieve better performance in the sector (Wallsten 2002).

Stiglitz (1999) stated that the inability of governments to build a regulatory body prior to the sale of a license will reduce its value. The reasoning is that potential investors would consider the unregulated sector risky since there is potential for regulatory changes; therefore, they will require compensation for that risk. In other words, setting a regulatory framework before privatization will most probably increase the value of the firm and thus yield more revenue to the government. In a study on Argentina's privatization, Hill and Abdala (1996) stated that regulatory frameworks were not duly considered during the process. Though the framework was written up during the same year, it was not directly implemented and later changed within a year. This lead to a change in management, making the state of the sector very risky and the result was that investors required proper compensation, which resulted in a decrease of the sale price (Wallsten 2002).

Wallsten (2002) conducted empirical research on the sequencing of reforms to study the effect of implementing an independent regulatory body prior to the sale. He

found that regulation prior to privatization is significantly positively correlated with "the number of mainlines, mainlines per capita, investment, and mobile subscribers". In other words, the investment and performance of the sector were improved when it was properly regulated. Another finding, reported by Wallsten (2002), is that in addition to performance enhancements, buyers were willing to pay a higher price for regulated sectors, thus affirming the fact that proper regulation before the sale creates a less risky environment for private investors.

3. Exclusivity Periods

Although the primary goal of privatization is to promote competition, some governments offer exclusivity periods when they sell to private investors. An exclusivity period is a temporary monopoly given to the new incumbent during a transition period. The major reason for granting exclusivity periods to the new investors is to maximize the sale value of the telecom license (Wallsten 2001).

Some researchers argue for other reasons, one of which is that exclusivity periods stimulate investments. Barbour (1997) argued that the "operator may direct and concentrate its capital and human and technical resources on expanding and modernizing the network", claiming that driver behind such investment is that the new incumbent captures a wide subscriber base before the entry of a new competitor. This argument has been negated by another point of view. Noll (2000) states that because both monopolies and competitive firms face the same cost of capital, it is unlikely that any will invest unless the increase in revenue can compensate for the cost of investment. Thus, a monopoly, given its market strength, which derives its profit through selling small quantities of goods or services for high prices, will not invest as long as its market share is not threatened.

Two empirical studies addressed the above issue with contradicting results. D'Souza and Megginson (1999) found that exclusivity periods are correlated with capital spending, while Wellenius (1997) found that Chile's privatization, which did not grant an exclusivity period, saw faster growth in its network than countries that did grant such a period. A further study by Wallsten (2001) aimed to explore the impact of exclusivity periods on two variables: the license sale price and the performance of the sector. From a selection of both, cross-sectional data for 32 telecom firms in 28 countries and panel data on exclusivity periods and performance measures from 29 privatized countries, with exclusivity periods ranging 0-25 years, the results were that firm sale price increases when "granting any exclusivity is associated with more than doubling the price investors pay the firm, ceteris paribus" (Wallsten 2001). The period of exclusivity also increases the sales price where each additional percentage increase in this period translated into a 0.35% and 0.52% increase in firm price for local and international exclusivity, respectively. In regards to the firm performance after privatization, Wallsten's (2001) results showed that exclusivity periods are negatively correlated with investment spending by the acquiring incumbent, the increase in penetration rates, the increase in the number of payphones, and international telecom traffic, which is calculated based on international outgoing calls. In conclusion, exclusivity periods increase the sale price the investor is willing to pay at the cost of decreased performance in the sector. Thus, competition is necessary to drive growth in the sector.

In summary, regulatory issues are necessary building blocks for successful privatization. In addition to providing the proper essentials for the sale, some factors, such as sequencing and exclusivity periods, have important privatization implications.

G. An Overview of the Telecom Industry in the MENA Region

As of the end of 2008, mobile phone subscriptions in the MENA region reached 215 million (ITU 2009). Countries such as the UAE were leading the world in indicators such as an unseen 200% penetration rate (number of subscribers divided by the country's population). Thus, it is clear that MENA's telecom sector is exhibiting high growth and this is basically caused by the high level of liberalization in the region where privatizations have netted a USD 12.88 billion in the year 2007 (Zawiya.com). Licenses were mainly acquired by the big five operators from four countries: 1) ZAIN acquired a third license in KSA for USD 6.1 billion, 2) Qatar was privatized to Vodafone Qatar for USD 2.12 billion, 3) STC bought a 26% stake in the third Kuwaiti operator for USD 912 million, and 4) Iraq generated USD 3.75 billion through selling three USD 1.25 billion licenses to ZAIN, Korek Telecom and Qtel, respectively (Zawiya.com).

An overview of four of the big five as of the year 2007 will be presented below since a closer look will be taken at ZAIN later in this paper.

1. STC – Kingdom of Saudi Arabia

Saudi Arabia kicked off its telecom privatization program in 1997 with the current leading operator STC as the incumbent operator. Currently, the Saudi market hosts competition between three operators, STC, Mobily and Zain, which kicked off its operations in the third quarter of 2008 (Zawiya.com). In 2007, STC doubled its subscriber base as it expanded internationally. STC now operates in Kuwait (Zawiya.com), Turkey, South Africa, India, Malaysia and India in addition to its local Saudi market (Zawiya.com). STC is currently on a five-year, customer-centered strategy, "FORWARD", which advocates the continuation of the deployment of 3.5 G

technology, the hunt for wholesale services, rapid broadband adoption, and an increase of its corporate consumer base as well as a continuation of the hunt for local and international investment opportunities.

2. Orascom Telecom – Egypt

The Egyptian market was also privatized in 1997. During 2007, Orascom went through major changes; namely, it sold its license Iraqna in Iraq, acquired a license in North Korea, and acquired the Canadian company Spectrum (Zawiya.com). In its local market, Egypt, Orascom leads both of its competitors, Vodafone Egypt and Etisalat Misr, through Mobinil with a market share of 49.5%. Among competitors in the region, Orascom has the largest consumer base (70 million customers) from the following operations: Mobinil (Egypt), Djezzy (Algeria), Mobilink (Pakistan), Tunisiana (Tunis), Banglalink (Bangladish) and Telcel (Zimbabwe) (Zawiya.com). An addition of 20 million customers, (40% increase in subscribers) took place in 2007 (Zawiya.com). It is clear that Orascom is avoiding investments in the GCC and heading towards investments in developing growth markets, such as North Korea and Bangladesh, Orascom has even created an entity called Telecel Globe whose role is to look for and go after such investments (Zawiya.com).

3. Qtel – Qatar

Qatar's Qtel has made a radical single-year transformation by moving from a single operator to establishing presence in 16 countries (Zawiya.com). This exponential growth made Qtel the largest company in Qatar with a market capitalization of QR 22.8 billion by the end of 2007. Its subscriber base grew by 850% to 16.35 million customers accordingly (Zawiya.com). It acquisition of 51% of Wataniya's shares gave Qtel access

to Kuwait, Tunisia, Algeria and Saudi Arabia Palestine and the Maldives. Additionally, Qtel is present in Oman through Nawras and in Iraq through the license acquired by the Asiacell consortium, in which Qtel was a participant (Zawiya.com). Qtel is also present in Singapore through a partnership with Singapore Technologies Telemedia (STT) and has acquired 25% of Asia Mobile Holding (AMH), which operates in Indonesia, Singapore, Cambodia and Laos (Zawiya.com). Additionally, it acquired40.8% of Indonesia's PT Indosat. Thus, it is clear that 2007 marked an aggressive foreign investment strategy for Qtel with a set goal of becoming one of the top 20 telecom operators in the world as of 2010 (Zawiya.com).

4. Etisalat – United Arab Emirates

Operating in what is considered to be the most advanced country in the region in terms of telecommunications technology (Zawiya.com), Etisalat owns 80.9% of the UAE market share with a consumer base of 8.572 million in 2007 and has only one competitor in the local market, which is Du (Zawiya.com). Its first international investment came through the acquisition of a license in KSA through Mobily in 2004, later, it sold 8.75% of its share at a profit (Zawiya.com). Etisalat had 63 million customers across 16 countries in Asia and Africa in 2007 with a 103% increase over 2006 (Zawiya.com). Etisalat also looks to be strategically investing in growth economies internationally.

It is clear that the huge growth in the Telecom sector exhibited in the MENA region has been diffused through competition and liberalization locally. This fact has prompted the big players to expand internationally, looking for higher growth and profitability opportunities. ZAIN Kuwait's case will be discussed in detail in a later section to seal the overview of the big five players in the MENA region. The next

chapter will cover corporate turnaround, business transformation, and the strategies used to improve the performance of average or below-average performing companies.

CHAPTER III

STRATEGIC CHANGE IN THE TURNAROUND PROCESS

The literature that has been discussed so far highlights that state-owned firms are underachieving firms. The research also shows that once privatized, these companies exhibit significant performance improvements. The ownership transfer by itself is not the factor that produces this change, this change actually come from the actions of the new owners. These actions are exhibited in the form of strategic and operational changes undertaken by the new owners in order to turn the firm from an underperforming state owned firm into a successful, efficient company.

Corporate turnarounds are when firm performance has declined to a point where the company's survival is at stake. Government-owned companies are rarely in danger of bankruptcy due to the fact that they have no budget restrictions and thus will be bailed out if needed. The research shows that these firms rarely perform above average. In addition, certain booming services, such as mobile telecommunications, are cash generating and even though they can generate much more revenue and be much more cost efficient, they are not in danger of bankruptcy. Yet and still, I will consider the privatization of the telecommunications sector as a corporate turnaround situation where strategic moves and operational and cultural changes are deployed to turn these firms into efficient, competitive companies.

A. Literature on Corporate Turnarounds

While the 20th century was characterized by major technological advancements, the 21st century has been driven by rapid international business

expansion and globalization. The globalization of markets has characterized the current state of business environment with the need for constant and accelerated change, unseen application of information technology, and the demise of the traditional organizational structure (McKeown and Philip 2003).

Traditionally, business edge was created through the abundance of natural resources and physical work, but today's weapons are communication and knowledge (McKeown and Philip 2003). Thus, traditional companies that resist change are bound to fail, and as put forth by Anon (2001a), if history was to repeat itself, not more than a third of the current companies will be around in 25 years. The failure of these firms will most probably stem from their inability to cope with the fast changing environment. Therefore, striving to continuously create competitive advantages through proper change implementation and management when required will create firms that are winners. Firms that are underachieving and are in danger of failure should resort to a change in the form of business transformation or corporate turnaround.

1. Reasons for Performance Deterioration

Research on strategic change implemented in corporate turnaround situations began to garner interest in the late 1970s (Barker III and Duhaime 1997). Early models were presented by researchers such as Schendel and Hofer, who attributed performance decline in firms to strategic choice problems and posited that this decline can be overcome through a performance turnaround strategy implementation (Barker III and Duhaime 1997). They also noted that a successful turnaround strategy should tackle the company's core difficulties, which can be either operational or strategic. Turnaround attempts that are unsuccessful in identifying the major reasons for firm decline are not effective (Barker III and Duhaime 1997).

On the other hand, another group of organizational theory researchers, through performing case studies, argued that firm decline is a result of organizational stagnation resulting from its managers' inability to sustain the alignment between the company's "strategy, structure and ideology" and to cope with the constantly changing surroundings (Barker III and Duhaime 1997). Thus, they concluded that the turnaround attempt should be done through an organizational transformation that radically changes the company's strategy, structure and ideology to better fit and adjust to any environmental changes.

Thus, strategic change is necessary for a successful turnaround. Barker III and Duhaime (1997) lay down the following two assumptions regarding strategic change during corporate turnaround:

- Weak strategic positioning causes firm performance decline.
- Firms are inertial; therefore, undergoing strategic change is challenging.

Barker III and Duhaime (1997) claim that the first assumption was clearly stated by strategic management theorists. Their corporate turnaround models state that tactics such as cutting costs decrease in asset purchases, and sales enhancing measures can help turnaround situations where a firm is inefficient in implementing a sound strategy. Yet, when the firm's problems are beyond operational, strategic reorientation is a must for an effective turnaround to take place.

Regarding the second assumption by Barker III and Duhaime (1997), they confirmed that turnaround researchers view inertia in firms as a restriction to strategic change initiatives; in these cases, operational turnaround attempts that focus on efficiency enhancing methods such as employee layoffs and cost optimization are deployed. Nevertheless, these methods will not tackle the difficulties of firms suffering from strategic disorientation and this inertia has to be surpassed in order to initiate

strategic change.

In short, declining firms suffer from either operational level or strategy level deficiencies. Therefore, for turnaround attempts to be successful, proper diagnosis of the problems should take place to be able to apply the right remedy. State-owned firms suffer from both strategic and operational difficulties, meaning that tactical efficiency boosting measures are not enough for a successful corporate turnaround.

2. Drawbacks of Traditional Research

Following the theoretical models discussed, corporate turnaround empirical research did not conform to the theoretical framework. The results analysis mainly attributed successful turnaround attempts to operational actions undertaken by the corporation.

A study by Hambrick and Schecter (1983) clearly highlights this issue. By studying the Small Business Units (SBUs) turnaround processes of mature industrial firms, they took on Return on Investment (ROI) as a performance measure and showed that it increases in SBUs that are declining when there are decreases in marketing expenses, research and development expenses, receivable accounts, and inventory as a margin of sales. In addition, an increase in sales per employee was also a trigger from increase in ROI. Barker III and Duhaime (1997) also cited other research showing that successful turnarounds where associated with decrease in assets, costs, cost to sales and assets to sales ratios. Thus, large sample empirical research has discounted any role of strategic reorientation in leading corporate turnarounds and focusing on operational changes to turn the firm into a healthy one. Two important points should be considered as a critique to past research (Barker III and Duhaime 1997):

- *It is not enough to measure how management reacts to decline only through*

assessing changes in financial results since it might conceal the actions put forth by management to achieve these changes. Change reflected in the firm's financial statements shows "changes in the amount or productivity of funds expended for some activity" (Barker III and Duhaime 1997). Nevertheless, these changes may be the result of a new strategic approach undertaken by the management, such as a new supply chain management system implementation or targeting a new or cutting off an unprofitable market segment. Furthermore, these changes in operational and financial figures may be falsely attributed to expense-cutting operational measures implemented by managers rather than being linked to strategic changes that were able to pick up the company from its downturn. Previous research has been supportive of this view where researchers, such as Ramanujam (1984), were able to show that efficiency-improvement measures shown by changes in efficiency coefficients for firms recovering from downturns are mainly attributed to increases in sales (Barker III and Duhaime 1997). A cross-sectional study by Arogyaswamy (1992) showed that corporate turnaround performance was linked with large increases in market share and efficiency improving actions by the management. His study on firms in decline showed that companies that successfully turned around their situation took up efficiency strategic moves that led to decreases in certain expenses as a percentage of sales rather than retrenching through decreasing those same expenses in absolute terms. Thus, it was clear that growth in sales revenue was the main driver of positive change in efficiency ratios, contradicting the conclusion reverting successful turnarounds to cost cutting measures.

- *Past research was designed in such a way that it produced samples of companies that had little need for strategic change.* Although some studies tried to control for the industry, the industry type, or used samples that are matched-pairs, most research designs still relied on spotting firms that have deteriorating performance

without seeking to understand the underlying reasons for this decline. These studies try to analyze strategic and operational actions undertaken to overcome the performance decline, creating a sample of firms going through performance declines for several reasons (Barker III and Duhaime 1997). The abovementioned sample is too diversified to measure how much effect strategic change has in successful corporate turnaround. According to Barker III and Duhaime (1997), research attributes firm decline either to firm-specific or industry-specific issues. Management's inability to deal with changing surroundings cause decline based on firm-related issues. This is true for firms operating in stable or growing industries and performing lower or on par with the industry averages. On the other hand, industry-based decline stems from problems caused by industries that are contracting and consequently cannot absorb the same number of companies, causing many companies to underperform or go bankrupt (Barker III and Duhaime 1997). Although both sources of declines are reflected in the operational and financial performance indicators, each has different implications. Firm-based declining firms probably suffer from poor strategic health and thus need higher degree of strategic change while those that are suffering from industry-based decline most probably are underperforming due to the industry contraction and thus need a lower degree of strategic reorientation (Barker III and Duhaime 1997). Therefore, selecting firms merely on decline in financial performance produces firm samples that have varying needs of strategic change. Furthermore, any successful turnaround may be associated with retrenchment management decisions when, in fact, strategic change was the main reason for performance improvement.

Based on the above drawbacks of traditional turnaround research, Barker III and Duhaime (1997) developed a seven-hypothesis model that discusses the variables affecting the degree of strategic change enacted in a successful corporate turnaround

attempt. They define a successful corporate turnaround when "a firm undergoes a survival-threatening performance decline over a period of years but is able to reverse the performance decline, end the threat to firm survival and achieve sustained profitability" (Barker III and Duhaime 1997).

The factors affecting the degree of strategic change needed depend on both the need and the capacity of the firm to execute strategic change. According to the hypothesis, three factors impact the extent of strategic change needed for a successful turnaround and indicate that more strategic reorientation is needed: 1) whenever the company's performance indicators are severely deteriorating, 2) the industry has high growth rate and 3) the firm decline will not be corrected through any later upswing in the industry (Barker III and Duhaime 1997). The capacity of the firm to implement the change is weakened or strengthened by firm-related characteristics, such as changes in top management, the resources available, its history, its corporate governance structure, its culture, its size, and its diversity (Barker III and Duhaime 1997).

Barker III and Duhaime's (1997) empirical research aimed to remove the previously discussed inconveniencies brought by previous research and tried to measure the degree of strategic change by recording the actual actions implemented by firms during turnaround attempts. The management actions implemented were identified and can be found in Appendix I**.** A 15-year period sample of U.S.-based, publically traded manufacturing companies exhibiting declines in performance and later showing recovery (through use of financial indicators) was selected. The results showed support for the seven hypotheses, albeit at varying degrees:

- Companies facing steeper decline in performance, measured by lower ROI implemented a relatively higher degree of strategic reorientation in its turnaround. Thus, the evidence shows that these companies need a higher level of strategic change

implementation.

- Companies that are underperforming in an industry characterized by growth also need a greater level of strategic change in order to enact a successful turnaround. This reaffirms the argument supporting the firm-based decline theory stating that firms declining in positive growth industries are in a weak strategic position compared to their rivals.

- The need for strategic reorientation in a turnaround attempt is decreased when the industry is exhibiting positive impact events. Thus, an improved state of the industry requires less strategic change to improve performance.

- A change in top management, namely the CEO, entails a more strategic change in a turnaround attempt and prevails over organizational inertia.

- Debt accumulation hinders the firm's capacity to enact strategic changes. Therefore, abundant financial reserves can empower the company and enable it to be innovative in order to reverse its underperformance.

- Larger companies enact a greater degree of strategic reorientations in successful corporate turnaround attempts. Firm size supplies it with market strength, increased resources, and authority to engage in domain changes (the results exclude joint ventures).

- Diverse companies enact a greater degree of strategic reorientations in successful corporate turnaround attempts. Diversity, defined as the width of the firm's product and services offerings in addition to market operations, enables firms to either sell off parts of its operations or even initiate an internal start-up, giving it more room for strategic changes.

Varying degrees of strategic change are building blocks for success in corporate turnaround attempts. Strategic reorientation is mainly driven by firm-based

factors, yet is either aided or hindered by industry level factors. Retrenchment and cost control actions may be a very viable change initiative, but they are not sufficient to create major and severe successful corporate turnarounds.

B. Competitive Strategies in Turnaround Attempts – Business Transformation

1. Characteristics of Corporate Turnaround

Corporate turnaround is achieved through some kind of business transformation. According to Muzyka *et al.* (19995), business transformation is defined as "a fundamental change in organizational logic which resulted in or was caused by a fundamental shift in behaviors". Successful turnaround attempts exhibit the following five characteristics (Prahalad and Oosterveld 1999):

- A successful corporate turnaround not only improves efficiency through retrenchment, processes reengineering and consequently improving profits. The business transformation should go the extra mile through reinvention of managerial processes and business strategies. The change should be revolutionary, presenting new innovative ideas and making sure that new opportunities are created and seized.
- The change must entail the whole firm where the change leaders should dramatically alter how the organization is looked at by all stakeholders. Opportunities should be perceived differently, creating a common view of how the organization should invent new ways to compete.
- The transformation must be able to alter profoundly entrenched cultures, beliefs, and values that are usually hidden and must alter them without causing chaos in the organization.
- New skills must be built in the organization in order to cope with the new mission. Changing the business approach through tapping into new markets and

building and maintaining a competitive edge requires the creation of an advanced portfolio of skills in the corporation in order to succeed in the transformation.

- Novel management processes must be introduced to bolster the whole turnaround attempt. Critical processes, such as employee rewards management, product development, and supply chain management among others, must be changed to reflect the new vision.

2. Business Transformation Models

Several "Business Transformation" models have been developed by researchers to help analyze or guide firms through corporate turnaround attempts. These models have been successful in some firms and unsuccessful in other. Below is a brief review of some of these models.

a. The Silver Bullet Theory

One of the approaches to business transformation relies on adopting a lone method, process, or competitive strategy to turn around the performance or behavioral orientation of the firm (McKeown and Philip 2003). This approach falls under "The Silver Bullet Theory". Silver bullet initiatives, as asserted by its advocates, are able to positively change organizational performance. Silver bullets change initiatives have been widely discussed in the research literature; they include and are not confined to Human Resources (HR) initiatives, such as profit sharing schemes, Business Process Reengineering (BPR), Information Technology (IT) implementations, and other strategic change initiatives (McKeown and Philip 2003).

A team of researchers supported by the European Commission and referred to as the COBRA team conducted a study examining the whereabouts of silver bullets

change initiatives (McKeown and Philip 2003). The COBRA team found that firms were overwhelmed with silver bullet change initiatives and that the change was oriented towards achieving short-term results. The final key conclusion of the study stressed the need to advocate corporate change approaches that adopt an approach that is more holistic, sensitive, and focused on people (McKeown and Philip 2003).

Although silver bullets are a very attractive change initiative, research has found that organizations often have a number of silver bullets initiated without taking into consideration alignment with the organization and integration with other silver bullets. For example, in a study by Davidson (1999), he noticed that one company had listed 114 distinct silver bullets expressed through operations enhancement plans. He concluded that these initiatives lacked alignment which impedes the ability to achieve a real corporate turnaround.

A study by Ghoshal and Bartlett (1996) examined a series of programs initiated by a number of firms, these programs aimed to improve efficiency in the organization's operations, revive its strategic positioning to implement a more effective one and revamp their idle state. They were able to identify the successful firms' distinctiveness, integration. Successful turnarounds were noticed when the business transformation pursued an integrated approach focusing on sequencing the development of particular firm capabilities and supported by "supporting change enablers" or silver bullets such as IT implementations and process enhancement initiatives (McKeown and Philip 2003).

Overall, silver bullets are effective when they are applied in an integrated organizational change initiative, sharing one strategic vision and setting the firm priorities accordingly. Two models of integrated approach to business transformation will be discussed next.

b. The Holistic Model

The holistic approach is defined through a number of key characteristics that shape business transformation: vision, culture, skills, team-work, constant improvement, reengineering of processes and organizational learning (McKeown and Philip 2003).

A methodology for implementing holistic business transformations has been identified by Spector (1995). It is driven by the below trident of concepts:

- Customer Alignment: The starting point of change should be the consumer requirements, values, and needs. All processes, whether internal or external should be designed to cope with these requirements, values and needs.
- Sequencing: Categorize priorities and sequencing the implementation accordingly.
- Learning: Organizational learning should be maximized during the change. Lessons should be extracted from the market, the consumer and all the partakers of the transformation process.

The holistic process thus advocates the integration of the firm priorities according to parameters imposed upon the organization by customer-related givens and sequences the implementation according to those priorities. Through the process, the organization is expected to make the best out of the experience and maximize its learning leading to a successful change and a more knowledgeable organization.

c. The Multi-Stage Model

Business transformation's Multi-Stage Model is founded on the fact that transforming every aspect of the firm concurrently cannot be achieved, and even when it is achievable, it is undesired (McKeown and Philip 2003). Companies such as General Electric, France Telecom, and Intel are examples of Multi-Stage business

transformations (McKeown and Philip 2003). McKeown and Philip (2003) lay down a number of factors that need to be addressed when going through a business transformation: common values, strategies, systems, processes, styles, skills, staff, and structures. These elements are highly interdependent, which makes a total business transformation in all these elements at the same time both unachievable and undesirable (McKeown and Philip 2003). Kotter (1999) argues that successful business transformation cases have shown that the change is usually implemented in a series of stages and requires sufficient time periods and that passing over certain stages can be mistaken for speed and fails to achieve the required goals.

The Sigmoid curve illustrates how the multi-stage model works. The curve highlights that a new change stage must be initiated once growth from the previous change initiative has started to decline. Figure 1 below shows how the Sigmoid curve works.

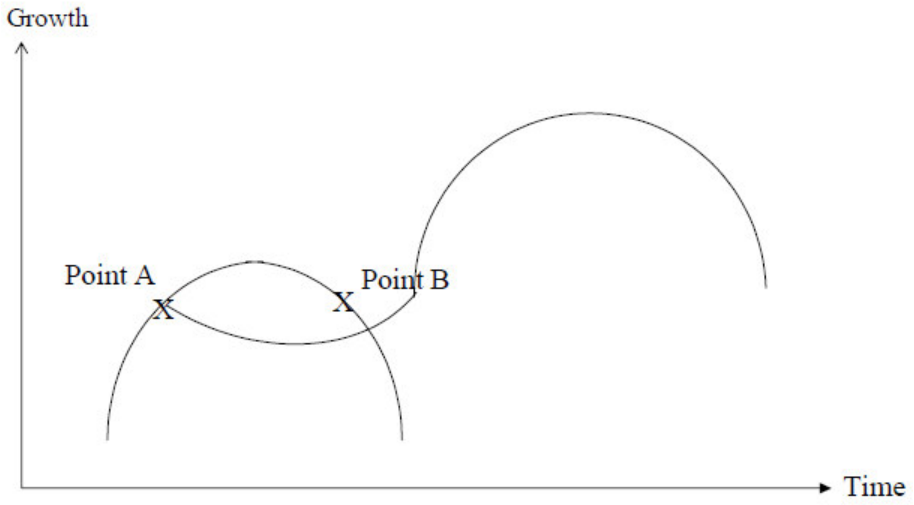


Fig. 1. Sigmoid Curve
Source: I. McKeown and Philip, G. (2003). "Business transformation, information technology and competitive strategies: learning to fly". *International Journal of Information Management* 23: 3–24.

Research has identified three stages in the multi-stage transformation model (Figure 2). They are "restructuring, revitalization and renewal", and each stage has four specifics: an objective, a strategic focus, a number of key activities, and a certain cultural orientation (McKeown and Philip 2003). The model is characterized by profitability and growth and entails a level of change that provides the firm with a sustainable competitive advantage.

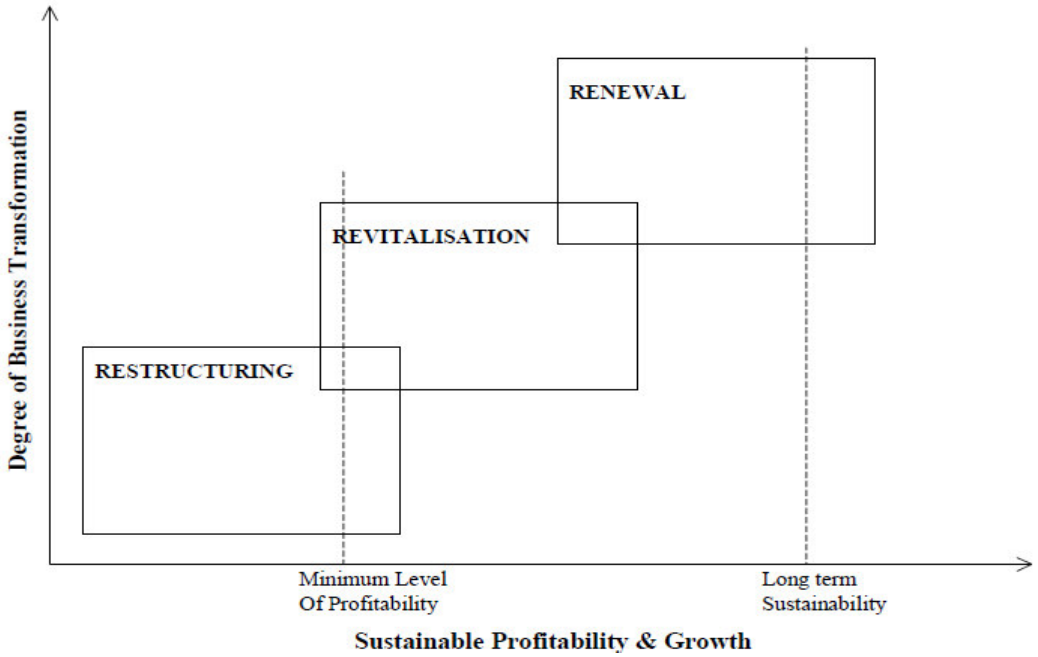


Fig. 2. Multi-Stage Business Transformation Model
Source: I. McKeown and Philip, G. (2003). "Business transformation, information technology and competitive strategies: learning to fly". *International Journal of Information Management* 23: 3–24.

Below is a highlight of the three stages as discussed by McKeown and Philip (2003):

- *The First Stage – Restructuring*

- Objective: Minimal threshold of profits.
- Strategic Focus: Decreased costs, increased capacity, and optimization of operations.
- Key Activities: Right size the organization (downsizing is more prevalent), trimming unnecessary products from the product line, revamping the firm processes and organizational structure.
- Culture: Characterized by top management control, sometimes can reach autocracy.

- *The Second Stage – Revitalizing*
  - Objective: Profit and growth enhancement.
  - Strategic Focus: Focus is on the customer satisfaction, better service and faster delivery, and the creation of value added processes.
  - Key Activities: Setting a new vision, looking for new business opportunities, collaborative alliances and acquisition (to be discussed in more detail) and the renewal of the firm's core competence.
  - Culture: Empowerment of employees.
- *The Third Stage – Renewal*
  - Objective: Sustainability of growth and profits for the long term.
  - Strategic Focus: Using technological advancements and available consumer knowledge to create a competitive edge, waste elimination, economic portfolio renewal.
  - Key Activities: Building new capacities, introduction of novel business units, reviving the firm's strategy.
  - Culture: Empowerment of employees is still prominent, the firm is more goal oriented and advocates group learning.

It is important to note that these stages can overlap, and the key activities can be seen at different stages. The main theme of the multi-stage model is that, in order for business transformation to succeed in the corporate turnaround, a sequential, complicated lengthy change process in the organization is required . This notion is often overlooked by shareholders, which might hinder some corporate turnaround attempts.

C. Competitive Strategies as Change Enablers

Going further, business transformation models set the framework of change implementation, but in order to successfully implement these models, change enablers, such as competitive strategies are required. Competitive strategies are chosen based on certain external and internal factors surrounding the competitive environment and are essential in determining the firm's ability to enact a successful turnaround, (Figure3) (McKeown and Philip 2003). As it is clear in the figure developed by Scott-Morton (1995), investment in a mix of organizational development factors, process enhancement/reengineering, and IT are essential in the success of corporate turnarounds.

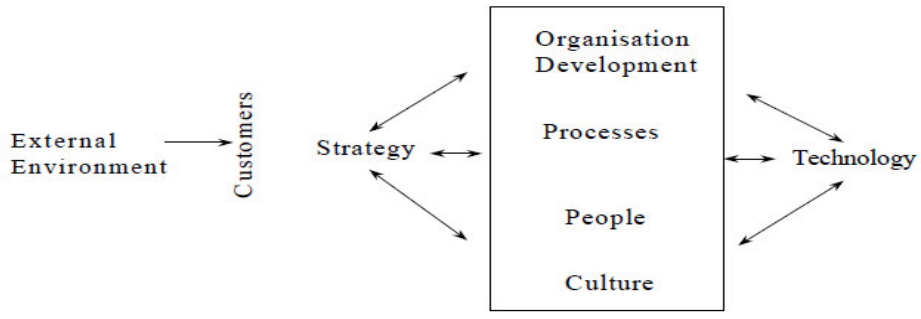


Fig. 3. Dynamic tensions between external forces and internal dimensions of the organization
Source: M.S. Scott-Morton. (1995). "Emerging organisational forms for the 21st century: Work and organisation in the 21st century". *European Management Journal* 13(4): 339–345.

These factors will be discussed next. In addition, an overview of an important and common competitive strategy in telecommunications, global expansion, which will be further discussed as an additional change enabler to Scott-Morton's three competitive strategies.

1. Developing the Organization

In order to implement a successful corporate turnaround, you will need a highly capable organization. Organizational development is a building block of successful change. Organizational development entails enhancing the firm's core competencies and maximizing organizational learning (McKeown and Philip 2003). A number of studies have adopted this view. Hamel and Prahalad (1990), consider core competency enhancement as a foundation of any strategy formulation around the organizations key talents and characteristics.

Another publication by Mascarenhas and Baveja (1998) points out that better performing companies lean on three core competencies: "superior technical know-how, reliable processes and close external relationships" (McKeown and Philip 2003). Their study stresses on the fact that these competencies are not static, they change over time. Mascarenhas and Baveja (1998) studied 12 prosperous multinationals from the US, Germany, India, and Japan. They concluded that the successes of these companies come from a number of factors. First, the companies constantly improved their competencies to cope with evolving competitive surroundings. Second, the reliance on external relations for improved competencies is becoming more common because it creates multiple competencies that are hard to replicate and creates a more adaptive firm that have better chances of longer survival.

The development of core competencies is an essential success factor in

corporate turnarounds. A firm that has weak competencies is more likely to fail in its effort to compete a successful change.

2. Process Improvement/Reengineering

Another strategic change enabler is "Process Improvement and Reengineering". Its tools vary from the most radical, Business Process Reengineering (BPR) to it less radical, Total Quality Management (TQM) and Benchmarking (McKeown and Philip 2003).

a. Business Process Reengineering

The term BPR, which is "a systematic, disciplined improvement approach that critically examines, rethinks, and redesigns mission-delivery processes in order to achieve dramatic improvements in performance in areas important to customers and stakeholders" (www.gao.gov), was originally set forth by Hammer and Champy (1993). It was originally based on the use of IT to achieve the desired turnaround , BPR later evolved to include the improvement of business processes, firm architectures and cultural orientations (McKeown and Philip 2003). In addition, and most importantly, BPR concentrated on improving the general coherence between the firm's strategy and the core business process through adopting a "top-down approach" (McKeown and Philip 2003). The main theme of BPR is that the redesign of critical business processes enables radical performance improvements that in turn create a competitive edge against rivals in the market. McKeown and Philip (2003) state that BPR has been supported by several researchers and businesses that have asserted that BPR had produced impressive results. Nevertheless, failed BPR projects have often been present in research literature (McKeown and Philip 2003).

b. Total Quality Management and Benchmarking

The two less radical tools, which can also be used to implement BPR, are TQM and Benchmarking. Deming's TQM is defined as "an approach that motivates, supports, and enables quality management in all activities of the organization, focusing on the needs and expectations of internal and external customers" (www.gao.gov). There are many approaches to TQM, such as the six sigma approach and the zero defects approach. Benchmarking is a structured approach for identifying the best practices from industry and government, and comparing and adapting them to the organization's operations (www.gao.gov). Benchmarking aims to discover processes that are more efficient and effective in order to accomplish the organizations set aims. In addition, it can help the firm set ambitious targets in terms of output, product and service quality and process enhancement.

In short, "Process Improvement/Reengineering" through BPR, TQM, and Benchmarking can help the organization in its quest for a successful business transformation. Once processes are more efficient and effective, they are reflected in performance improvements across the firm.

3. The Support of IT

Companies have had a major shift away from the dependence on physical output to the dependence on the availability of knowledge (McKeown and Philip 2003). Businesses are now increasingly reliant on information and ease of communication in order to control their resources. Better knowledge on the industry, the rivals, the consumers, and the suppliers in addition to their own business is now essential for a firm's success (McKeown and Philip 2003). These facts have made the role of IT essential in running businesses and improving them. It provides the tools to view,

control, and transfer the knowledge required by any firm. Many companies have resorted to IT as a major part of their business plan and as a major change enabler that creates a sustainable competitive edge.

Previous studies have discussed the importance of IT in business transformation through its ability to align and integrate the business and IT strategy across the firm (McKeown and Philip 2003). A model developed by Venkatramam (1994) hints that the change benefits of IT implementations do not show when they are imposed on the current firm conditions. However, dramatically improved results are achieved when IT investment is accompanied with a parallel change in the organization's strategy, culture, processes and structures.

Therefore, IT can be added as a tool that magnifies the firm's ability to succeed in its corporate turnaround. Lead by the overall change in the organization, IT can reposition the firm in a better competitive position against its rivals.

D. Global Expansion of Telecommunication Providers

In addition to the business transformation models and strategies discussed previously, it is important to discuss global or international expansion of telecom providers and the array strategic approaches it presents to the telecom carriers to improve their performance.

The competitive environment in the global telecommunications sector seems to revolve around a market behavior that targets building a competitive edge via a strategic blending of resources and both a geographical spread and multiple product presence in each country (Chan-Olmsted and Jamison 2001). Telecommunication is becoming a converged industry through the new technology's ability to integrate the communication media under one network. As a growing industry, telecom's growth is driven by this

geographical spread and emergence of new products (Chan-Olmsted and Jamison 2001). These factors have created several strategic choices for telecom providers to use and these choices have translated into several strategies these companies can implement as they seek growth and profitability.

1. Factors Driving International Expansion

The global spread of telecommunication providers has been caused by several factors; these factors are either environmental or firm specific:

a. Environmental Factors

Liberalization and free markets in many industries had generated a high level of demand for telecom services of high quality and less cost and eventually managed to end the traditional view of telecommunications providers as being state operated (Wellenius and Stern 1994). These factors has transformed the telecom sector from an engineering oriented one to a commercially driven business (Kramer 1993), prompting investors to invest abroad in an industry that seemed to provide a steady cash inflow and tremendous growth opportunities (Sarkar, Cavusgil and Aulakh 1999).

With privatization sales values amounting to around USD 160 billion dollars from the years 1984 to 1996 (Chan-Olmsted and Jamison 2001), this widespread liberalization and privatization trends all over the globe have lead new investors to take interest in the international telecom market. Not only did opening up markets create new opportunities for investment, it also inflicted strategic difficulties on the already existing providers, especially in developed countries (Chan-Olmsted and Jamison 2001). On the other hand, new entrants face an unfamiliar market with distinct business, legal, and regulatory practices and have to adopt strategies that will enable them to compete and

recoup their often large monetary investments.

b. Firm-Level Factors

As discussed above, environmental factors have created several foreign investment prospects for liquid investors who want to make a decent return. Thus, firm-related factors, such as strategic and scale driven issues, lead companies to expand into foreign telecom markets.

- *Strategic Factors*

After foreign markets opened up due to privatization, deregulation and competition, investing in telecom abroad became a very attractive investment opportunity. At the same time, deregulation in local markets is increasing competitiveness, limiting growth, and eating up profit margins.

Technological developments have also increased competition in local markets where new products (such as internet-based) are also taking away market share from traditional telecom providers. This advancement in technology has been a major driver of growth in telecommunications. New products and services are being developed at a rapid pace, and telecom providers who constantly pioneer the market with these new products are always a step ahead of their competitors. In addition, new technologies also optimize the production and operational costs which decreases prices, stimulates demand and growth, and thus tightens competition in the industry, both on a local and global scale. These factors have all pushed telecom companies to look abroad for countries where their markets are fresh, about to be privatized, and have future growth potential.

Another strategic reason for international expansion is the ability to "arbitrage across government policies to maximize returns" (Kogut 1990); in other words, telecom

providers that operate in regulated local markets with limited returns are keen to invest in foreign markets that can offer them higher returns on their money and thus diversify their portfolio of investments. For example, the U.S. market offers a return between 10-12% compared to a healthy 30% return from international investments (Sarkar, Cavusgil and Aulakh 1999). Therefore, telecom providers redirect their wealth towards a more favorable foreign regulation in order to increase their profitability.

Another issue driving the internationalization process is the global markets' strategic interdependence (Sarkar, Cavusgil and Aulakh 1999). Usually, the competitive position in one market can alter the competitive positions in other ones through various factors. The international existence of telecom providers can give them a competitive edge in retaining large corporate clients who require dedicated lines to build private networks that enhance the global integration of operations through a seamless, comparable, and compatible services in the countries in which they do business (Sarkar, Cavusgil and Aulakh 1999). Providing such services at increased prices is a very huge revenue stream that builds on the already high rates of return.

First movers' advantage is another important driver for telecom globalization. Deregulation and privatization has moved the telecom sector from being a monopolistic competition to an oligopolistic one. Each country has a limited number of licenses for sale and thus market opportunities are scarce. As a result, early movers for license acquisition attain an important competitive advantage, especially if they were acquirers of the first license and negotiate an exclusivity period with the host government for a period of monopoly operations. These advantages are both strategic and financial. Early movers capture a sole source of cash flow establish a huge customer base that they may lock in before any new licenses are sold and thus have the upper hand once competition commences.

- *Scale Related Factors*

Several scale advantages arise with the international presence of telecom providers. With the growth attained, economies of scale start kicking in. The huge volume of telecom equipments purchases required for global telecom providers especially when setting up, upgrading or expanding networks gifts them a superior negotiation position with network equipments manufacturers (Sarkar, Cavusgil and Aulakh 1999). Under such circumstances, equipment and other required purchases suppliers are obliged to grant substantial discounts for global carriers in order to gain the huge volume and fend off other suppliers. This decreases costs on these firms and, in turn, increases their profit margins.

Another scale consideration comes from the interconnection nature of telecom networks. The fact that fully utilizing networks comes with no extra cost, presence in multiple regions can bring down costs of interconnection as the firm uses its foreign networks and thus minimizes interconnection payments. In addition, these firms may redirect traffic in certain fully utilized networks, thus decreasing costs, increasing revenues and ultimately earning higher returns.

2. International Expansion Strategic Patterns of Telecommunication Companies

The foreign telecommunications market is characterized by its complex and uncertain nature of its surroundings. In order to cope with it, telecommunication providers with international presence and expansion plans need to approach these surroundings with relevant competitive strategies.

According to Porter (1980), the firm has three choices to pursue in order to remain competitive; its decision is effectively based on matching the competitive advantage it owns and the targeted market characteristics. Porter's (1980) well-known

three generic strategies are: “cost leadership”, “product differentiation”, and “focus”. The first approach calls for working your operations to realize the lowest cost structure; consequently, the firm either decreases its prices or retains the extra profits for further investment or product development. The second strategic option, “product differentiation”, requires the firm to offer its customers products that have distinct characteristics compared to what its competitors are offering, which gives customers the incentive to purchase the distinct product at a premium price. The last generic approach presented by Porter (1980) is the “focus strategy”; this approach is based on the firm’s ability to target a certain market segment with a product that is tailored such that it satisfies their specific needs. Porter (1980) believes that the focus strategy’s strength is based on the firm’s ability to establish a franchise in the market (Chan-Olmsted and Jamison 2001).

Another strategic framework presented by Hax and Wilde (1999) was developed based on studying the competitive strategies of more than 100 companies. Although they recognize Porter’s three generic strategies importance, they believe that they do not fully cover all the strategies a firm can undertake to compete in its surroundings (Chan-Olmsted and Jamison 2001). Based on the above strategies by porter and their own research, Hax and Wilde (1999) proposed a new strategic model, the “triangle” strategic approach. The “triangle” model, like Porter’s model, has three alternatives: “best product”, “customer solutions”, and “system lock-in”. First, the “best product”, adopts the either Porter’s “cost leadership” or “product differentiation” with a focus on one service or product, in other words, the firm chooses to focus on producing the best product through practicing process and product enhancement, economies of scale, thus improving its market share by making use of its experience and the corresponding learning curve or by differentiating its product through the use of

technological edge, brand image strength, enhanced product features or other special value adding services. “Customer solutions” strategy on the other hand, is centered on maximizing customer satisfaction. This is done by offering the targeted consumers customized products that would offer them maximum satisfaction through proper forecasting and extensive studying of the consumer needs. The third and last strategy proposed by Hax and Wilde (1999) is the “system lock-in”, which relies on collaboration with complementary product and service providers, such as mobile phone and network manufacturers, which adds value to the firm’s offerings. The three above strategies are of varying degree of scale and scope considerations. At the “best product” end, the scope is minimized to develop economies of scale to achieve lower costs, as the company moves into differentiation strategies and product bundling, scope is increased at the expense of scale, at the other end, the “lock in” strategy, scale is minimized to give room for scope oriented strategies (Chan-Olmsted and Jamison 2001).

Based on both Porter’s generic strategies (1980) and Hax and Wilde’s (1990) “triangle” business model, Chan-Olmsted and Jamison (2001) were able to identify four strategic patterns in the telecommunications industry international market. The strategies are “focus”, “best product-differentiation”, “customer solutions orientation”, and “strategic alliances for scale, speed and scope”.

a. <u>“Focus” Strategic Pattern</u>

Chan-Olmsted and Jamison (2001) have noticed two types of focus strategies. One that is geographically focused, in which expansion is focused in one region due to the novelty of telecommunications restructuring and the unique characteristics of that area. One example is China Telecom and NTT, which had focused their expansion in the Asian region (Chan-Olmsted and Jamison 2001). Others expand into more than one

geographical area in order to diversify their investment portfolio, such as Telefonica and Deutsche Telecom, which had not only expanded in the European region, but also penetrated the American continent (Chan-Olmsted and Jamison 2001).

The second type of "focus" strategies observed is focusing on one product segment, most notably the concentration on wireless mobile communications. Although this might be attributed to the huge growth in the mobile telephony market, many companies have made it the only market segment they operate in, companies such as AirTouch and Vodafone are completely focused on this product offering while companies such as AT&T are restructuring in such a way to break its operations in focused product segments (Chan-Olmsted and Jamison 2001).

b. Best Product-Differentiation Strategic Pattern

Under this strategic pattern, telecommunication firms try to build strong brand equity and marketing plans that differentiates them from other telecom providers. Due to the convergence of the global market through the geographical and services integration, globally oriented telecommunication providers are seeking to create a differentiated brand image that is linked to growing markets and dissociated from a clear cut service or geographical region emphasis (Chan-Olmsted and Jamison 2001). France Telecom's marketing campaign promoting a new logo and identity to change the company's new global image to a one that stresses innovation, customer orientation, and the convergence of various old and new services it provides (Chan-Olmsted and Jamison 2001). Therefore, aggressive branding is a very clear indicator of "best product-differentiation" strategic pattern.

c. Customer Solutions Orientation Strategic Pattern

This strategic approach aims to supply consumers with attractive features in addition to wide coverage and enhanced connectivity that would capture a bigger market share to the benefit of the telecom service provider. Single networks providing end to end telecom solutions for large multinational customers through the establishment of "local-to-global-to-local" or "local-to-regional-to-local" strategic network coverage is one approach for "customer solutions orientation".

In addition to customer satisfaction, these network arrangements decrease the telecom provider's dependence on the local incumbent's network and thus creates enhancement in service quality and profit margins (Chan-Olmsted and Jamison 2001). In order to pursue such strategies, sometimes collaborative alliances and partnership arrangements are needed. Finally, it is important to highlight the importance of scale considerations in "customer solutions orientation" strategies because an increased subscriber base and geographic spread gives more strength to the telecom provider's network reach as customer satisfaction increases with better interconnection with both other networks and other customers.

d. Strategic Alliances for Scale, Speed and Scope

The formation of collaborative strategic alliances is a very common strategy observed in the global telecommunications market. This strategy allows collaborating firms to achieve greater size, greater speed of expansion and larger scope in the targeted market (Chan-Olmsted and Jamison 2001). As put forward by Oh (1996), global strategic alliances have four goals:

- Risk and entry cost reduction, especially in "regional trade blocks", the objective is achieved via joint efforts in marketing and in production.

- Enhancement in global competition via cost optimizing purchases and production; those are achieved through large discounts (discussed earlier) and economies of scale respectively.

- Joint production and development of high tech product and services at a more efficient and more effective rate.

- Benefiting from the ability to group scarce resources to achieve greater returns.

Researchers such as Joshi *et al.* (1998) found that the majority of strategic alliances between telecommunication companies were undertaken by providers that have extensive product lines and concentrate on innovation and development of new markets. According to Chan-Olmsted and Jamison (2001), there are two general types of strategic alliances, non-structural alliances and structural alliances.

- *Non-Structural Alliances*

A non-structural alliance is a collaborative partnership that usually takes place between major global telecom carriers engineered to change the path of the current market competition. Non-structural alliances are formed through marketing agreements; license agreements, joint ventures, and partial equity and are usually easier to break up than structural alliances. The choice of alliance type depends on several factors, especially the firm's market position in terms of its size, capital structure, and technological capabilities (Chan-Olmsted and Jamison 2001) where big telecom providers with high profits and advanced research and development capabilities are more likely to rely on non-structural alliances, widening the array of collaborative choices.

- *Structural Alliances*

Structural alliances are formed through mergers or acquisitions of other firms.

In both, mergers and acquisitions, the acquiring company assumes the ownership of the other's assets in exchange for cash or securities; the difference though is that in acquisitions, the acquired firm continues to exist while in mergers, the merged firms combine to become one firm. The ability of the acquiring firm to quickly integrate several telecom market segments, capture an established subscriber base, combine smaller niche markets, and eliminate or beat a competitor into a market makes structural alliances one of the most attractive options for international expansion (Chan-Olmsted and Jamison 2001). With the telecom globalization and integration (Chan-Olmsted and Jamison 2001), speed and scale are becoming success factors in current rapidly changing economies. Global expansion through mergers and acquisitions is becoming a preferred strategic path for many regional and global players to establish quick presence, leadership, and growth.

3. Reasons for Failure in Strategic Alliances

Although strategic alliances are a very attractive option to implement, some factors result in the failure of these collaborations:

a. Management, Strategy and Culture

First, managerial, strategic and cultural variations between different collaborating firms may cause failure of the alliance. Proper alignment of these factors needs to be made prior to any implementation of these partnerships in order to spread trust between partners and avoid the diminishing of each company's own identity.

b. Vision

Differences in the respective company visions and desired goals can also

hinder the success of strategic alliances. Firms that enter into strategic alliances with different objectives that do not coincide are most likely to fail.

To conclude, strategies used in international expansion are valid tools to use in corporate turnaround, and it is clear from the discussed literature that global expansion is used by telecom companies to make a change towards higher growth and profitability.

CHAPTER IV

ZAIN'S CORPORATE TURNAROUND CASE STUDY

A. Empirical Research

So far in this paper, research has shown that privatization boosts the performance of the privatized company. This performance improvement is due to the change in the firm ownership which brings along a new management team with a new vision, new strategies and new objectives. The paper also discusses factors, models and theories related to these changes. This chapter will examine a post privatization case and test whether in reality, corporations implement these business transformation strategies given the company specific factors.

B. Research Methodology

According to Yin (1989) this type of research can be performed through surveys, experiments, analysis of archives and case studies. Considering the fact that this paper examines how privatizations can trigger successful corporate turnarounds through business transformation, the researcher has opted to use a case study research method to analyze a firm that turned private and commenced with a corporate change strategy. The case study will examine the change Zain (previously MTC), a Kuwaiti based telecommunication operator, had undergone over a ten year period. The company went private in the year 2000 and initiated an expansion plan in the year 2003. We will examine the change strategies, initiatives and implementations undertaken by Zain from the year 2000 to the year 2009 and test whether they link up and adhere to the literature discussed previously in this paper.

The analysis will be divided into three parts (D, E and F), the first part (D) will examine whole business transformation during the 10 year period. The second part (E) will cover a financial analysis of MTC/Zain. The third and final part (F) will link the business transformation of MTC/Zain to the models and theories discussed in the review of the literature.

C. Data Collection

The case study analysis relied on semi-structured interviews with *five top level* employees from the examined firm, company and other publications related to the strategy implementations, in addition to publically available annual and financial reports (financial data was collected both for Zain and its regional competitors) extracted from each company's website. The interview questions used aimed to gather information about the change initiatives undertaken and were either oral or e-mail based.

D. The Business Transformation of MTC/Zain

This section will examine MTC/Zain's corporate turnaround. The data collected on MTC/Zain's business transformation from the interviews and publications are discussed in five parts. The first part will provide an overview of MTC/Zain, part two will discuss the factors that drove MTC/Zain's business transformation. The third and fourth parts will discuss MTC/Zain's new strategic vision the "3 by 3 by3" and the foundations that provided the building blocks for the transformation. The last part of this section will discuss a number of change enablers and initiatives implemented by MTC/Zain along its ten year journey.

1. The Privatization of MTC/Zain – The Start of a New Era

1983 marked the first building block of mobile telecommunications in the region. This mark was left by MTC (Mobile Telecommunications Company) – currently Zain, the first telecommunication company in the region and the incumbent telecommunications provider of Kuwait (Zain.com).

Shortly after its birth, MTC/Zain started introducing new technologies to their target customers (such as the introduction of ETACS - Extended Total Access Communications System and GSM - Global System for Mobile Communications) (Zain.com). In 1997, a second operator license was granted to the National Mobile Telecommunications Company, known as Wataniya Telecom (www.budde.com). The Kuwaiti telecom market was introduced to real competition in the year 2000 when Wataniya started its operations and private investors took over MTC/Zain's ownership and the Kuwaiti state's ownership chunk was cut to 25% later in 2001 (Zain.com). At this point, the post privatization management team initiated a corporate turnaround process, one that would eventually change MTC from a local Kuwaiti operator to Zain, a regional telecommunications powerhouse.

2. Strategic Change Drivers at MTC/Zain

With the new ownership structure in place in 2001, mid 2002 witnessed the appointment of a new CEO, Dr. Saad Al Barrak. Al Barrak was highly regarded by the new owners as the man to revitalize the organization and initiate a strategic change that would dust off the old culture of MTC due to his background in change management, strong personality and his visionary character. After the appointment of a new management team, several factors and issues came into play to kick start the business transformation process. Below is a brief overview of each change driver:

a. Privatization

The privatization of MTC through the Kuwaiti state reduction of its majority shares to 25% was by all means the major change driver in the company. The privatization brought about new owners with new goals and return on investment (ROI) requirements, consequently a new top management team was leading the company with a new strategic vision.

Additionally, the global wave of privatization and liberalization was rapidly becoming the dominant trend in the MENA region. This trend meant that new growth opportunities in regional markets are bound to open up with a host of operators yearning to capture a piece of the pie. Thus a quick reaction to this wave was required by MTC/Zain in order to fulfill its goals.

b. The Competition

With the Kuwaiti state's sale of a new GSM license in the year 1997 (Zain.com), Wataniya commenced its operations in 2000 and started eating up MTC/Zain's market share. Up until the arrival of the new top management, MTC/Zain had had a laid back approach to competition while its market share was being reduced from controlling the whole market to loosing half of the market share in 2002 (wirelessintelligence.com). The rapid loss in market share was an alarming issue to the new top management and required rectification through a more aggressive competitive strategy, improvement of service quality and improving efficiency. In order to be able to accomplish these improvements, a new strategic approach by the management was required.

c. Slow Local Growth and Search for New Opportunities

With the Kuwaiti telecom penetration rates reaching around 54.32% in 2002 when the average penetration rate in the Middle East was at 16.52% (wirelessintelligence.com), it was obvious that even though the market still has some potential, it was bound to get to saturation and thus growth will soon be limited. On the other hand, several regional and international markets such as Africa (penetration rate of 4.37%) and Asian Pacific (penetration rate of 12.32%) countries have underdeveloped telecom (wirelessintelligence.com). These markets served as potential growth opportunities that need to be seized in a limited timeframe.

d. The Availability of Resources

Ever since its inception in 1983, MTC/Zain has been a monopoly in a high income country. This fact has made the operation a very profitable one. By the time the new owners took control in 2000, the company had accumulated vast amounts of cash that had been sitting around and earning an idle status. The inability of the old management to invest the idle funds had created a lost opportunity and a waste of resources. Thus the need for investment of these resources was a clear requirement for the new top management.

The above factors combined together to create a need for change, a change that required a different strategic approach that can radically change how the company used to do business.

3. MTC/Zain's New Strategic Approach – "3 by 3 by 3"

The change drivers brought about a new change initiative, an initiative which was launched by the newly appointed top management to set a new vision for the

company. The initiative that was started in 2002 brought together cross functional teams of different seniorities to lay down the company's aspirations, the business plan to achieve them and to know what kind of change was needed to implement the said business plan. This change initiative resulted in the birth of a new company vision in the year 2003. MTC/Zain's new vision stated the following (Zain.com):

"To become a global mobile telecommunications company by the end of the year 2011"

This new vision instigated a new company strategy, the *"3 by 3 by 3"*, which was the building block of the corporate turnaround of MTC/Zain.

a. <u>What is the "3 by 3 by 3"?</u>

MTC/Zain's top management's new strategic approach, the "3 by 3 by 3" is an ambitious path laid down as a strategy that would initiate a strategic change to expand the company over three three-year intervals. The 9 year expansion plan consisted of three stages (Zain.com):

- Growth to become a regional company.
- Growth to become an international company.
- Growth to become a global company.

MTC/Zain's new strategic approach was clearly stated, that is, the company aims to rapidly expand internationally through strategic partnerships, acquisitions and capturing green field opportunities. The multiplication factor aimed to show that MTC/Zain wants to achieve in nine years what other firms needed some 27 years to achieve. Nevertheless, and even though these strategies would ensure growth, they are not enough to ensure a sustainable long term growth. In other words, strategic enablers and efficiency enhancing measures should be implemented to ensure the success of the

business transformation.

4. The Foundations of the Change

Prior to the initiation of the major change initiatives, a number of important building blocks for the change were either created or had already existed. These foundations gave MTC/Zain the power and confidence to go about their change initiatives.

a. Top Management Selection

Considering the bureaucratic, laid back, inefficient attitude of the old management, resistance to change was written all over the place. The first step that would send out a clear message of change was to employ a new talented top management team that would work together to implement change in the organization. With the appointment of Dr. Saad Al Barrak as CEO, the top management team was renewed with a host of new recruits possessing the best caliber available. The newcomers were selected based on several characteristics other than the basic excellent educational background. The employed candidates had to have the personality to lead a change and be completely committed to it. Therefore, a new top management team was in place which consequently initiated a revamping of all key positions, or the critical mass in MTC/Zain.

b. Top Management Empowerment

In order to be able to proceed with a successful change, the traditional Middle Eastern approach to ownership had to be negated. With the arrival of the new top management and the setting up of a new strategic expansion plan, selling the idea faced

some difficulties. The idea of expansion was hard to sell considering MTC/Zain was generating enough returns for the investors. Consultants were used to validate the new strategic approach in addition to considerable lobbying among investors. These actions gave the newly appointed post privatization management team received full support from the company shareholders. After the shareholder objectives were clearly communicated to the top management, they were fully empowered to fully transform the company in order to realize the set goals. This healthy interaction between the shareholders and the top management created an excellent trusty relationship between them that helped the new management in implementing its new strategic vision.

c. Corporate Restructuring

Typical to all public institutions, the MTC/Zain Kuwait operation was a bureaucratic overweight organization. It was clear that the company was operating inefficiently as the unnecessary staff costs were high and thus the need to restructure to a flatter more flexible organization emerged. Indeed, downsizing took place at MTC/Zain where some staff was laid off. This sent a clear message in the organization, a message that one of the new non-negotiable goals of the renewed organization is to overturn the existing inefficiency.

d. The Role of Consultants and Other External Parties

MTC/Zain established and maintained a strong relationship with its consultants, suppliers and other external parties such as banks. This relationship eased the ability to go forward with change management initiatives where the consultants provided the expertise to support MTC/Zain's ideas and help turning them into strategies that can be implemented while other parties such as banks and suppliers

provided the operational contribution such as granting loans for acquisitions.

Additionally, consultants such as McKinsey, Skopos and Accenture worked in sync with MTC/Zain management and staff at all change stages and were involved with practically all the strategic vision setting up, change initiatives creation and competency building across the organization. The consultants helped MTC/Zain in the fields of finance, marketing, sales and networking.

e. The Shift from a Technical to a Commercial Mindset

Being a service company that operates on engineering technologies, the two core functions of the company are technical and commercial. Up until the new management team took control, MTC/Zain was a technically oriented organization, a reality that required rectification. The new management viewed technology as a servant to the customer needs and thus the main concern of the organization shifted to be customer satisfaction.

The first seed implanted to ease the organizational shift towards a more commercial approach was the overhauling of the call center. The call center was at a very low level of operation, employees were poor performers, no adequate training was given, the call center services were limited to answering inquiries, the IVR (Interactive Voice Response) systems was outdated and slow in addition to several other issues.

The transformation of the call center coincided with MTC/Zain's overall cultural shift; in fact it was in a way a clear message of how the company's culture will be molded throughout the rest of the organization. The change in the call center entailed appointing a competent manager to run it, physically reallocating it from its isolated geographical location in the South of Kuwait, in addition to the recruitment of competent staff and offering better incentives in addition to the implementation of new

information systems and the latest technologies to make the call center's work easier and more efficient. Not only did this massive overhaul of the call center provide an improved company front to its customers, it also sent an internal message to the staff about the cultural change direction and seriousness.

f. A New Culture

The dominant culture at MTC/Zain was typical of a state owned firm. A lack of vision was prevalent, bureaucracy and efficiency was widespread, lack of communication between all levels of employees and the company had no sense of customer orientation or marketing.

With the "3 by 3 by 3" in place, it was mandatory that the existing culture be changed completely for it to succeed. As discussed earlier, the culture transformation kicked off with the complete overhaul of the call center. This action shaped the cultural orientation of the organization as being a consumer oriented one. The culture shock was required to instill the new focus. The new culture focused on creating an atmosphere of teamwork where the first initiative to set the "3 by 3 by 3" strategy was creating cross-functional teams. The new culture thrived to create a family atmosphere, one that spreads trust, passion and commitment towards the company, effective communication and one that rewards achievements and creativity. This new culture aimed to promote organizational learning, emphasize on customer focus and in turn increase the firm's efficiency.

g. Co-Branding with Vodafone

The collaborative agreement between MTC/Zain and Vodafone in September 2002 aimed to strengthen MTC/Zain's brand through associating it with one of the

biggest global telecom providers. In addition, MTC/Zain gained access to Vodafone's product array, improved roaming agreements, and access to developmental trainings in most of the aspects of the operation. MTC/Zain basically wanted to learn and gain expertise from a global telecommunications giant such as Vodafone and prepare itself for competition at a global stage. The new management aimed to launch MTC/Zain's development at a higher speed with this collaborative arrangement.

h. Other Foundations

A number of additional factors represented the array of pillars MTC/Zain drove its strength from in order to achieve a successful transformation. These factors are the availability of talented staff especially in the Technical function, the availability of financial resources in addition to the adoption of Strategic Human Resources (HR), an ongoing initiative which will be discussed later as a strategic change enabler.

5. Strategic Change Initiatives

With the stage set up with strong reliable foundations for the business transformation, a number of change initiatives and strategic actions were undertaken during the ongoing change process. All these change initiatives were undertaken to realize the "3 by 3 by 3" strategy.

Being an expansion strategy based on collaborative strategic alliances, naturally the most important strategy is Mergers and Acquisitions (M&A). In order to have a successful change to cope with the expansion, several strategic and change enablers or initiatives were used with the most significant ones being the culture, ACE and its follow ups MBM and Drive 11, Strategic HR, Rebranding, and Innovation through the unique "One Network". Below is a discussion of the above:

a. Mergers and Acquisitions – The International Expansion Engine

With the local market share cut by competition and penetration rates reaching high levels, growth potential was limited and any strategic move would only offer minor adjustments to the market share and will be unlikely to offer any significant increase in returns. With the adoption of the "3 by 3 by 3" strategic vision, MTC/Zain clearly stated that its ultimate target is to "Become by 2011 one of the world's ten largest mobile telecommunications companies, serving over 150 Million satisfied customers" (Zain.com). A series of acquisitions, green-field opportunities capturing and collaborative partnerships were made during the period between 2003 and 2009 to realize the "3 by 3 by 3" expansion plan.

- *Regional Expansion*

The first regional expansion footstep took place in January 2003 through acquiring 96.5% of Jordan's leading mobile telecom operator for an amount of 424 million dollars (Zain.com) without any need to take any loans. Two other deals took place in that same year, the attainment of the second mobile GSM license in Bahrain and one of the three mobile GSM licenses in Iraq, the deals took place in April and December respectively (Zain.com). The pace slowed down a bit in 2004 were only one deal took place; MTC/Zain was able to win the bid to manage one of the two mobile operators in Lebanon (Zain.com). The management agreement in Lebanon was a triumph whereby it required minimal monetary investment and it helped give MTC/Zain and advantage through starting to prepare for any potential privatization in Lebanon.

- *International Expansion*

May 2005 marked the most significant strategic move in the history of MTC/Zain, the acquisition of the pan African mobile operator, Celtel. After Celtel decided to sell its operations, MTC/Zain decided to step up and dive in the high growth

high risk continent of Africa through acquiring 100% of its shares for an amount of 3.36 billion dollars (Zain.com). Many experts believed that operating businesses in Africa was like opening Pandora's Box. This belief was based on several factors such as the widespread poverty, safety issues and political instability. In addition to the risks associated with macro economical issues, the notion of trying to manage a business in a geographically distant, culturally distinct continent was a great challenge. Additionally, after the acquisition, MTC/Zain decided that they would start restructuring the Celtel management after two years which meant that for the next two years, business at Celtel would be operating as it was. Although it was a risky move to expand into Africa, the move had a tremendous upside growth potential and thus was viewed as a huge opportunity by MTC/Zain.

After the Celtel acquisition, MTC/Zain continued its regional-international expansion with a number of significant deals. MTC/Zain, and through its newly acquired subsidiary Celtel, was able to acquire the remaining 39% of Madagascar's Madacom and the remaining 61% of Sudan's Mobitel (deal worth 1.332 billion US dollars) to its operations on December 2005 and February 2006 respectively (Zain.com).

Two more significant acquisitions by MTC/Zain were undertaken. The first was Celtel's acquisition of Nigeria's Vmobile (May 2006) for 1 billion dollars (65% of the shares) to rack up an additional 5 million customers (Zain.com). The second deal was successfully acquiring the third mobile license in the Kingdom of Saudi Arabia for the mega amount of 6.1 billion dollars in March 2007 (Zain.com).

By the end of 2009, MTC/Zain was operating in 23 countries in the Middle East and Africa and serving more than 72.5 million customers as per below Table 1 (Zain.com).

Table 1. Zain's International Expansion

Zain's International Expansion							
Year	*2001*	*2003*	*2004*	*2005*	*2006*	*2007*	*2009*
Countries	Kuwait						
		Jordan					
		Bahrain					
		Iraq					
			Lebanon				
				Burkina Faso			
				Chad			
				Congo Brazzaville			
				Dem. Rep. of Congo			
				Gabon			
				Ghana			
				Kenya			
				Madagascar			
				Malawi			
				Niger			
				Sierra Leone			
				Tanzania			
				Uganda			
				Zambia			
					Sudan		
					Nigeria		
						KSA	
							Morocco
Year	*2001*	*2003*	*2004*	*2005*	*2006*	*2007*	*2009*
Number of Countries	1	4	5	19	21	22	23

b. Cultural Change

Culture has been discussed as a building block that was able to empower the organization to proceed with its change initiatives. Although the initial changes shaped the organizations culture, the culture was constantly evolving as the organization was maturing. The rebranding of all its operations to Zain in 2007 helped transmit its culture to the external public. Additionally, an Organizational Development (OD) unit was created in order to implement the cultural change across the organization.

MTC/Zain believed that its core values were empowered by people, they were clearly stated as “Radiance, Heart and Belonging” (Zain.com). Radiance referred to “leading the way with imagination and vision, bringing joy, color, and richness to our

business environment" (Zain.com). Heart is about "living our lives with courage and resolve, engaging our spirit and touching emotions (Zain.com). Last but not least, belonging represented "being part of the fellowship and community spirit that knows no territorial boundaries" (Zain.com).

MTC/Zain believed in those core values and believed that they were the drivers of success. Additionally MTC/Zain was heavily engaged in corporate social responsibility in all the countries it operated where it helped better and empower the communities it is affiliated with through various activities such as donations, building and supporting education centers in addition to other humanitarian activities (Zain.com). MTC/Zain also thrived to make the best of each country's local talents where they operated with a high percentage of local employees (Zain.com).

c. Strategic Human Resources

Strategic HR was another strategic measure that helped in the business transformation. With the radical change in culture, HR's involvement was critical to help convey the new culture correctly. HR moved from being a support function to a strategic change enabler in the year 2007. HR was split into two functions, one that is responsible for the administrative support for the staff and another that was responsible for the organizational development in terms of talent attraction and development and easing change initiatives into the organization. HR worked closely with consultants to develop new initiatives and systems and was deeply involved in the corporate change especially with the Business Transformation Unit. An Organizational Development unit was created to create a top notch Human Resource Management (HRM) system, develop leaders and act as a change agent. Change initiatives such as Zain Academy were undertaken by HR which aimed at transferring and knowledge sharing for and

with the employees. Employee stock options and profit sharing schemes were given to employees based on annual performance evaluations and quarterly performance reviews in addition to the creation of a flatter organization. In other words, the role of HR was very important in shaping the culture of customer orientation, teamwork and employee empowerment and efficiency through performance enhancing initiatives and creating accountability (Check Appendix II for HR philosophy).

d. Zain – The Birth of a Wonderful World

MTC was now operating under two major brand names, MTC and Celtel, which in turn umbrella other national operator brands (Fastlink, Mobitel, MTC Vodafone, MTC Atheer, MTC Touch). In order to start building a brand equity that would measure up to the size of MTC, a branding of the whole organization was necessary. Choosing the new brand name was a hectic process. Name suggestions were requested from the employees where many were disqualified until Zain was selected based on its symbolism and its ability to display MTC's culture. Prior to the launch, market research was conducted to ensure that the name would be successful across all operations and the rebranding exercise was initiated. The rebranding implementation kicked off first in September 2007 through the rebranding of the Group Corporate Master Brand and 4 Middle Eastern operations (except Lebanon due to the management contract and in Iraq which was rebranded in January 2008 following its acquisition of Iraqna). The African operators followed its Middle Eastern counterparts and rebranded in August 2008 with a series of celebrative events such as concerts that aimed to promote the Zain brand.

The rebranding from MTC and Celtel to Zain aimed to:

- Create brand equity.

- Re-establish the Zain culture for all stakeholders.
- Use the rebranding as an integration mechanism between all operators.
- Create a new global identity.

A heavy advertising campaign accompanied the rebranding clearly focusing on Zain's culture and exhibiting the new company slogan *"Zain - A Wonderful World"*. The rebranding exercise made Zain one entity, with a common culture and common goals.

e. Accelerate Consolidate Expand – The ACE Initiative

ACE, officially launched in January 2007, was one of the biggest change initiatives implemented in Zain to realize the "3 by 3 by 3" strategy. ACE in turn produced a chain reaction of business transformation initiatives. ACE represents three words, "Accelerate, Consolidate and Expand" (Zain.com). Accelerate the growth in Africa; Consolidate the existing assets and Expand into adjacent growth markets (Zain.com). ACE set well defined, measurable targets to be achieved by the year 2011:

- Achieve 6 billion dollars Earnings before Interest Taxes Depreciation and Amortization (EBITDA) (Zain.com).
- Achieve a market capitalization of 30 billion dollars and become among top ten global mobile telecom providers in terms of market cap (Zain.com).
- Attain a 70 million subscriber base which was later modified and increased to 150million (Zain.com).

In order to achieve the set targets, a number of efficiency enhancing, growth initiatives had to be used as business transformation strategic enablers involving all the departments across the whole organization. The initiatives entailed network optimization, focusing on the corporate clients market in Africa, focusing on enhancing

the customer experience, alignment and optimization of expenses across the organization through capturing synergies, aligning the organizational structure across all operations and strengthening the organizations talent pool. ACE was the followed up with two updates, the MBM (Modular Business Model) and Drive 11, which served as follow up on ACE initiatives. Drive 11 was especially important as it was initiated with the global economic downturn in 2008.

Thus ACE and its follow up initiatives targeted enhancing growth and retrenchment activities and consolidation across the organization.

f. Other Initiatives – One Network

It is important to mention one of the innovative initiatives implemented by Zain, the "One Network". "One Network" is a technical innovation that aimed to treat Zain's network as one operator where calls in all countries were charged as a local call in contrast to paying expensive roaming charges. This initiative was an innovation in mobile telecom and had not been used by any operator prior to Zain's implementation and was a clear message of network consolidation by Zain.

E. ZAIN Financial Analysis and Comparison to Regional Operators

With the constant acquisitions and corporate change initiatives taking place between the year 2000 and 2009, it is only natural to believe that these developments, along with external factors, would have either a direct or an indirect financial impact on the firm. A high level analysis of the annual change in key financial indicators is thus required to highlight the impact of strategic and operational change initiative on the financial well-being of the firm. The analysis will entail the below financial and performance indicators where required:

- Annual increase in Total Assets (TA) as a measure of the firm's investments.
- Annual percentage change in Profits before Taxes (PBT).
- Return on Assets (ROA) calculated by dividing PBT by TA as a measure of the degree of proper asset utilization.
- Return on Investment (ROI) calculated by dividing PBT by Total Shareholder's Equity (SE) to measure the return on finds employed by investors in the firm.
- Debt to Equity (D/E) ratio calculated by dividing Total Liabilities (TL) by SE to measure the company's degree of leverage.
- Total Debt to Asset (TD/TA) ratio calculated by dividing TL by TA to measure the company's financial risk (degree of assets financed by debt).
- Annual increase (absolute and percentage) in subscribers.
- Other period relevant indicators such as Revenue per Subscriber, Cost per Subscriber and PBT per Subscriber.

The financial data was collected from both, ZAIN's and its direct regional competitor's annual financial reports and converted to USD based on end of year exchange rates. The financial analysis will entail two aspects: The financial performance of ZAIN for the 10 year period (2000 to 2001 inclusive) in relation to the constant change the firm was undergoing and a financial comparison to its direct regional competitors. Table 2 below illustrates:

Table 2. Zain's Financial Performance and Change Events

Item ('000) USD	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Total Assets	874,509	1,050,669	1,161,554	1,991,429	2,193,018	7,005,673	12,012,440	15,911,827	19,808,434	19,765,984
Total Current Assets	302,412	381,721	456,265	587,394	721,395	1,343,999	2,381,382	2,013,437	3,052,499	2,472,595
Fixed Assets	273,547	330,285	362,365	735,748	741,199	1,702,959	3,892,467	5,449,450	7,278,831	7,465,968
Total Liabilities	149,022	190,624	217,387	850,878	871,930	2,854,055	6,849,387	9,541,612	11,185,236	11,166,434
Total Equity	725,487	860,045	944,167	1,140,551	1,321,088	4,151,618	5,163,053	6,370,215	8,623,199	8,599,550
Revenues	390,134	394,053	440,858	890,644	1,088,024	1,974,297	4,464,457	6,111,385	7,193,681	8,044,032
Expenses	180,075	186,363	207,964	543,684	672,811	1,280,879	3,090,154	4,465,759	5,826,466	6,291,419
Operating Net Income	210,059	207,690	232,894	346,960	415,214	693,417	1,374,303	1,645,625	1,367,215	1,752,613
Net Income Before Taxes	227,670	222,507	249,334	368,133	432,105	696,793	1,200,238	1,397,467	1,403,610	869,751
Net Income	227,837	259,377	249,334	346,658	405,877	635,752	1,079,898	1,248,537	1,210,684	732,941
Number of Shares	483,323,062	483,323,062	483,323,062	507,489,216	814,053,897	997,466,731	1,861,802,808	3,352,917,359	3,692,924,099	3,869,853,106
Subscribers	600,000	651,000	786,000	1,920,000	3,192,000	13,650,000	27,037,000	42,501,000	63,535,000	74,009,300
Reported EPS	0.471	0.537	0.516	0.683	0.499	0.620	0.544	0.350	0.312	0.173

Financial Ratios	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
ROA	26.03%	21.18%	21.47%	18.49%	19.70%	9.95%	9.99%	8.78%	7.09%	4.40%
D/E	20.54%	22.16%	23.02%	74.60%	66.00%	68.75%	132.66%	149.78%	129.71%	129.85%
TD/TA	17.04%	18.14%	18.72%	42.73%	39.76%	40.74%	57.02%	59.97%	56.47%	56.49%
ROI	31.38%	25.87%	26.41%	32.28%	32.71%	16.78%	23.25%	21.94%	16.28%	10.11%

Growth Indicators	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Growth in Revenues	NA	1.00%	11.88%	102.03%	22.16%	81.46%	126.13%	36.89%	17.71%	11.82%
Growth in Expenses	NA	3.49%	11.59%	161.43%	23.75%	90.38%	141.25%	44.52%	30.47%	7.98%
Growth in Profit Before Taxes	NA	-2.27%	12.06%	47.65%	17.38%	61.26%	72.25%	16.43%	0.44%	-38.03%
Investment in Fixed Assets	NA	56,738	32,080	373,383	5,451	961,760	2,189,507	1,556,984	1,829,381	187,137
% Increase in FA	NA	20.74%	9.71%	103.04%	0.74%	129.76%	128.57%	40.00%	33.57%	2.57%

Average Per Subscriber	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Revenue per Subscriber	0.65	0.61	0.56	0.46	0.34	0.14	0.17	0.14	0.11	0.11
Cost Per Sub	0.30	0.29	0.26	0.28	0.21	0.09	0.11	0.11	0.09	0.09
Profit before Tax Per Sub	0.38	0.34	0.32	0.19	0.14	0.05	0.04	0.03	0.02	0.01
Net Profit Per Sub	0.38	0.40	0.32	0.18	0.13	0.05	0.04	0.03	0.02	0.01
Subscriber Additions	NA	51,000	135,000	1,134,000	1,272,000	10,458,000	13,387,000	15,464,000	21,034,000	10,474,300
Subscriber Growth	NA	8.50%	20.74%	144.27%	66.25%	327.63%	98.07%	57.20%	49.49%	16.49%

Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Major Events	Privatization	State Reduces Ownership from 49% to 25%	Branding With Vodafone	Acquired Fastlink Jordan	Awarded Management Agreement for One of Two Operators in Lebanon	Acquired Celtel in Africa	Acquired Sudan's Mobitel	Launching of ACE Initiative	Proceeding with Rebranding of the African Operations	
				Purchased 2nd GSM License in Bahrain		Acquired Madagascar's Madacom	Acquired Nigeria's Vmobile	Purchased 3nd GSM License in KSA	Commercial Services Launched in KSA	
				Purchased One of Three GSM Licenses in Iraq				Initiates Rebranding in Middle East Operations	MBM and Drive 11	
								One Network		
								Acquisition of Iraqna, Operating Two Licenses in Iraq		

1. ZAIN's Financial Performance

The financial performance of ZAIN had been subject to internal and external effects that shaped the returns ZAIN was able to extract to its investors.

In the first three years 2000, 2001 and 2002 there were no major change

initiatives undertaken, consequently, Zain showed slight financial performance variations. With a 176 million dollar increase in Total Assets (TA) between 2000 and 2001, the ROA decreased from 26.03% to 21.18%, a return that remained practically unchanged in 2002 (21.47%). The drop between 2000 and 2001 was clear on the ROI which dropped from 31.38% in 2000 to 25.87% in 2001 to a slight increase to 26.41% in 2002. The 2.27% decrease in Profit before Taxes (PBT) in 2001 along with the increase in Fixed Assets (FA) investments caused the drop in the ROA and ROI. In 2001 a revenue increase of 1% was overshadowed with a growth of 3.49% in expenses causing the drop in PBT. 2002 showed an increase of 11.88% and 11.59% in revenues and expenses respectively causing a 12.06% increase in PBT which caused a slight increase in ROA and ROI. Thus it was clear that competition with Wataniya was impeding growth in PBT and in turn ROA and ROI at MTC/ZAIN with only one significant initiative undertaken, the rebranding arrangement with Vodafone, ZAIN was showing no growth in its financial indicators. On the other hand, the D/E and TD/TA ratios averaged 21.91% and 17.97% which showed that the firm had low leverage and that only 17.97% of its assets financed by debt and thus was a healthy firm and was not in risk of bankruptcy.

The next two years, 2003 and 2004, marked the adoption of the "3 by 3 by 3" strategy by the new management and in turn triggered the start of a regional expansion plan. With the acquisition of Jordan's Fastlink, the purchase of the second GSM license in Bahrain and one of three GSM licenses in Iraq in 2003, in addition to the successful bid for Lebanon's zero investment Management Agreement in 2004, MTC/ZAIN exhibited the highest return ratios in the considered 10 year period with a ROA of 18.48% and 19.7% in 2003 and 2004 respectively despite an increase of 830 and 202 million dollars in TA for the same years. ROI in turn was at 32.28% in 2003 and

32.71% in 2004. The high returns were exhibited in the massive 47.65% increase in PBT in 2003 followed by a smaller but remarkable 17.38% growth in the same indicator. The significant increase in subscribers of 144.27% and 66.25% due to the expansion through acquisitions was a major trigger for these high returns even though the revenue per subscriber was decreasing to 0.46 and 0.34 in 2003 and 2004 respectively from 0.56 in 2002. The D/E ratio on the other hand increased to 74.6% and 66% in 2003 and 2004 respectively. Nevertheless, having a TD/TA ratio of 42.73% in 2003 and 39.76% in 2004 meant that the firm had enough assets to cover any potential financial distress. Therefore, the primary expansion change initiatives resulted in significant increases in financial performance in the years 2003 and 2004.

2005 marked the major acquisition of Celtel where Zain's customer base increased by 10.4 million or 327.63%. Consequently, 2005 showed an increase of 61.26% in the absolute value of PBT. Nevertheless, between 2004 and 2005, ROA and ROI decreased from 19.7% and 32.71%, to 9.95% and 16.78% respectively, therefore neither the assets were adequately utilized nor the investor returns were at a decreasing rate. At the same time, D/E and TD/TA showed a slight increase of 0.027% and 0.01% which means that Zain's debt profile remained basically unchanged.

For the following two years, 2006 and 2007, the expansion plan continued with further acquisitions (Mobitel and Vmobile in 2006, KSA License and Iraqna in 2007) and the 2007 launching of the ACE initiative which aimed, as the return ratios (ROA and ROI) were decreasing, to achieve more growth and efficiency through consolidation and achieving economies of scale. Although the PBT growth was the highest in 2006 at 72.25% with the 98.07% growth in subscribers to 27 million, the ROA remained unchanged although assets investments were increased by 5 billion dollars. The 2006 ROI returned to higher levels with a 23.25% from 16.78% in 2005, signaling promising

prospects in the African market. The debt profile on the other hand showed very high leverage with a 132.66% D/E ratio, while the assets were financed with a 57.02% debt. 2007 showed lower growth levels with the PBT growth decreasing from 72.25% to 16.43%, ROA decreasing from 9.99% to 8.78% as assets increased by 3.9 billion dollars, and ROI decreasing from 23.25% to 21.94%. D/E and TD/TA increased to 140.78% and 59.97%. Thus 2007's decrease in return ratios made ACE implementation a necessity in order to bring back the investor returns to higher levels.

With ACE in action, returns were expected to start improving. Unfortunately, with the outbreak of the global financial crisis in 2008, growth was impeded in 2008. Although subscribers had the highest addition (21 million) over the period under study with the acquisition of third GSM license in KSA, PBT was practically unchanged with a 0.44% increase while ROA and ROI continued its downward trend from 8.78% and 21.94% to 7.09% and 16.28% respectively. Debt levels decreased with D/E moving to 129.71% and 56.47%. With the financial crisis and the inability of ACE to override the severity of the global conditions, Drive 11was adopted as an update on ACE and to come up with new initiatives that would enhance efficiency in the firm. The financial turbulence at Zain became more severe in 2009 where PBT shrinked by a whopping 38.03%, from the all time high 1.4 billion in 2008 to 870 million dollars. Return ratios consequently decreased to a ROA of 4.4% and a ROI of 10.11% while debt ratios remained unchanged. Thus, with the returns at an all time low, Zain's African operations, excluding Morocco and Sudan, were later sold in 2010 to Bharti Airtel for a deal worth 10.7 billion dollars.

The above high level analysis aimed to link financial performance to change initiatives and other external factors through the 10 year period understudy. Nevertheless, to get a complete picture, it is necessary to make a comparison between

Zain and its major competitors in the Middle East and Africa region.

2. Financial Comparison with Zain's Regional Competitors

After analyzing Zain's financial performance variations in relation to the change initiatives implementation, it is important to highlight how Zain is financially performing compared to its direct competitors. The same financial indicators used in section 1 were used for the below analysis in addition to an industry average of each (assuming the five firms are the industry). Data was collected from the annual reports available from each company's website; the companies considered are STC, Orascom, Qtel and Etisalt. The selection was based on the fact that these companies are the top 5 (including Zain) telecom operators in the MENA region in terms of market capitalization and geographic expansion. The data contains financials from the year 2001 to 2009 (inclusive) with the exception of Etisalat (2001 and 2002 not available) and Orascom (2009 not yet published). The analysis will entail an analysis of each indicator over the course of the covered period.

a. <u>Growth in PBT</u>

The growth in PBT between 2000 and 2001 was -2.27% compared to a -784.98% average with a notable 3,140.20% decrease coming from Orsacom Telecom. Despite this slight decrease, Zain was the second performing operator from the sample. In 2002, growth in PBT started picking up with 12.06%, again second only to Qtel an above the sample average of -18.96% which again was distorted by Orascom's decrease of 103.42%.

In 2003 and 2004, the high volatility of Orsacom's PBT change raised the average to 848.17% and 61.2% respectively, Zain's PBT increased by 47.65% and

17.38% in the same two years. On the other hand, Celtel's acquisition in 2005, gave an average PBT growth of 66.75% for 2005 and 2006, the highest among its competitors and higher than the industry average of 60.27%.

The year 2007 saw an average growth of 30.64% in the sample while Zain witnessed an increase of 16.37%, the third ranked in the sample. 2008's financial crisis curbed PBT growth in all operators except Qtel in 2008 and 2009 where it averaged 115.51% compared to a 5.36% industry average. Zain's had one of the worst decline in PBT at -37.6%.

Over the 10 year sample, Zain was outperformed only by Orascom and Qtel in terms of PBT growth as Table 3 illustrates:

Table 3. PBT Growth

PBT Growth	2001	2002	2003	2004	2005	2006	2007	2008	2009	Operator Average
ZAIN	-2.27%	12.06%	47.65%	17.38%	61.26%	72.25%	16.43%	0.44%	-38.03%	20.80%
QTEL	14.25%	13.83%	20.66%	30.13%	-1.57%	19.26%	4.73%	71.19%	44.32%	24.09%
STC	-11.68%	1.68%	140.56%	9.32%	33.17%	3.16%	-5.59%	-3.11%	0.87%	18.71%
Orascom	-3140.20%	-103.42%	4014.83%	230.18%	68.63%	-18.01%	112.66%	-43.97%	NA	140.09%
Etisalat	NA	NA	17.14%	18.97%	24.88%	38.33%	24.97%	10.34%	7.84%	20.35%
Yearly Average	-784.98%	-18.96%	848.17%	61.20%	37.27%	23.00%	30.64%	6.98%	3.75%	23.01%

b. ROA

From 2000 to 2002, Zain was outperforming the sample with a 22.89% average over the three years compared to a 15.08% sample average. With the commencement of its expansion plan, the ROA of Zain was below the sample average from 2003 to 2009 with a 11.2% average compared to a 14.77% for the sample average as per the below Figure 4.

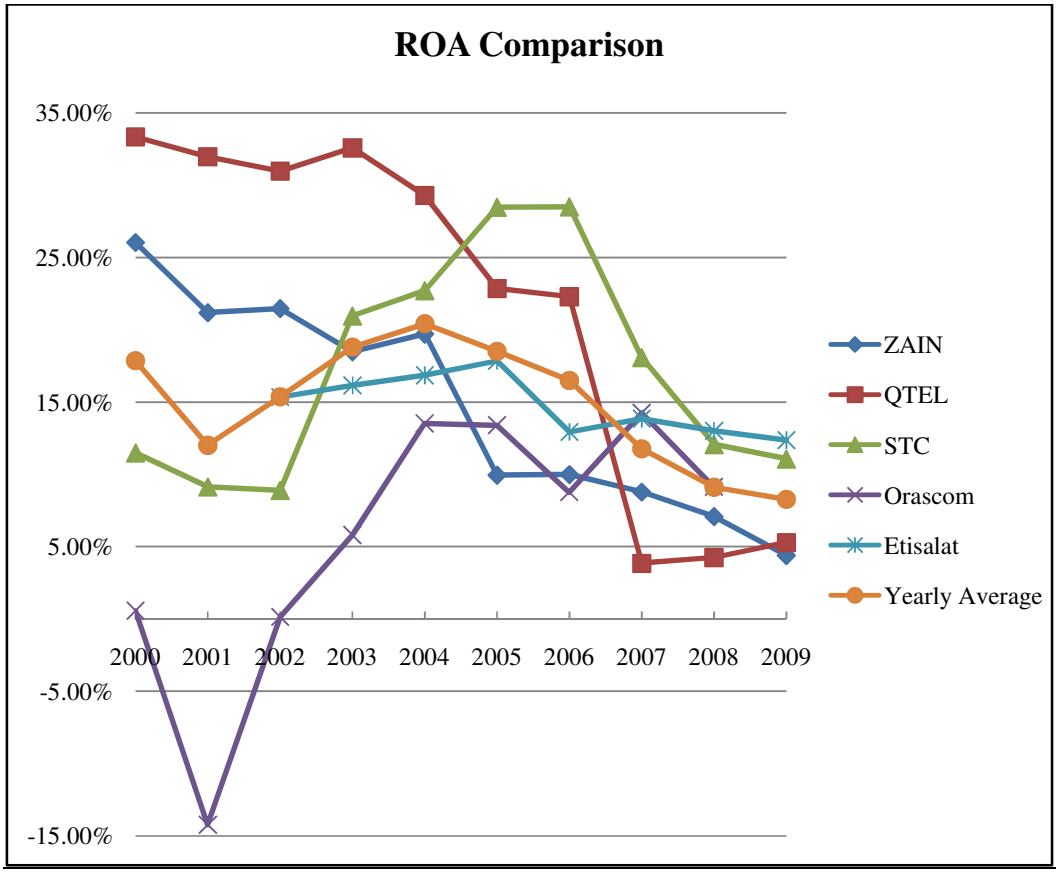


Fig. 4. ROA Comparison

c. ROI

Zain's ROI was outperforming the sample from 2000 to 2003 with an average of 28.98% compared to a 21.21% sample average. Over the period, Zain was only outperformed by Qtel every year. On the other hand, from 2004 onward to 2009, Zain was operating with an ROI of 2.18%, below the 29.4% of the sample average.

Over the 10 year period, Zain had the lowest ROI average among all its competitors as per the Figure 5.

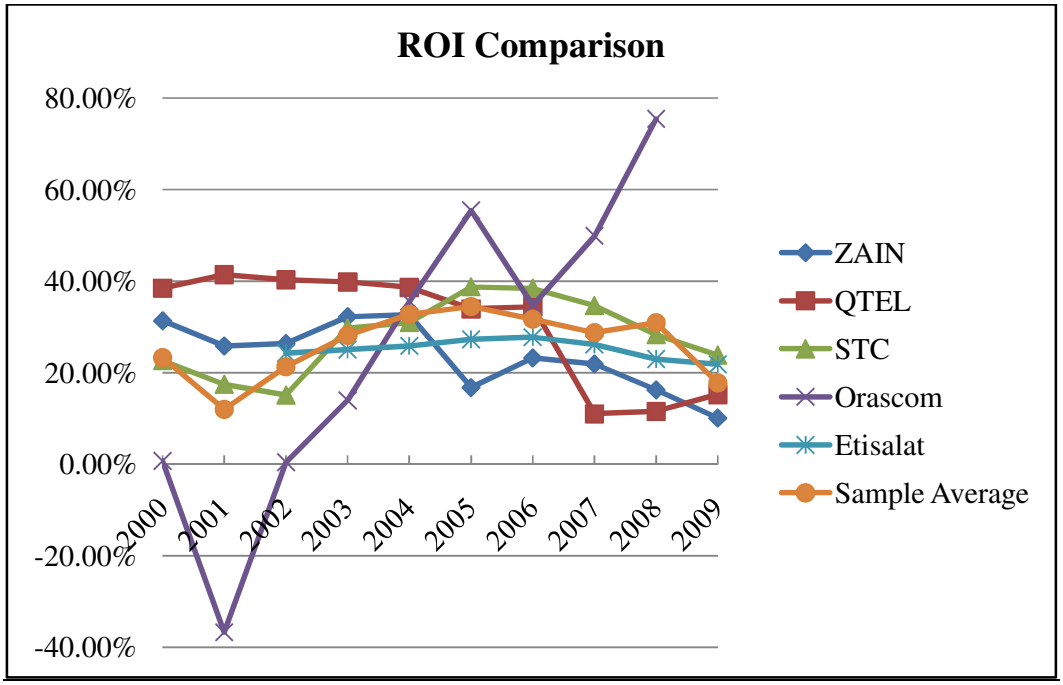


Fig. 5. ROI Comparison

d. D/E

Zain's average D/E ratio of 21.91% was below the sample average of 40.95% from 2000 to 2002, it started increasing with the commencement of the expansion plan in 2003 where it exceeded the sample average every single year except 2008. In general, Zain's leverage of 129.85% was close to that of the sample, 127.69% over the course of the 10 years, thus emulating the industry leverage ratio as illustrated in the Table 4.

e. TD/TA

Zain's asset financing was also close to the industry average from 2000 to 2009 with an average TD/TA of 56.49% compared to the sample average of 54.72%. This means that Zain's debt profile was similar to that of the industry. Figure 6 shows Zain's position relative to its competitors.

Table 4. D/E Ratios

D/E Ratios	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
ZAIN	20.54%	22.16%	23.02%	74.60%	66.00%	68.75%	132.66%	149.78%	129.71%	129.85%
QTEL	15.52%	29.72%	30.27%	22.38%	32.10%	48.73%	54.41%	186.35%	171.55%	188.59%
STC	97.05%	91.31%	70.40%	42.11%	36.27%	36.18%	35.04%	91.72%	134.39%	115.58%
Orascom	15.52%	29.72%	30.27%	22.38%	32.10%	48.73%	54.41%	186.35%	171.55%	
Etisalat			58.32%	55.13%	53.43%	52.96%	114.58%	89.18%	76.64%	76.73%
Sample Average	37.16%	43.23%	42.46%	43.32%	43.98%	51.07%	78.22%	140.68%	136.77%	127.69%

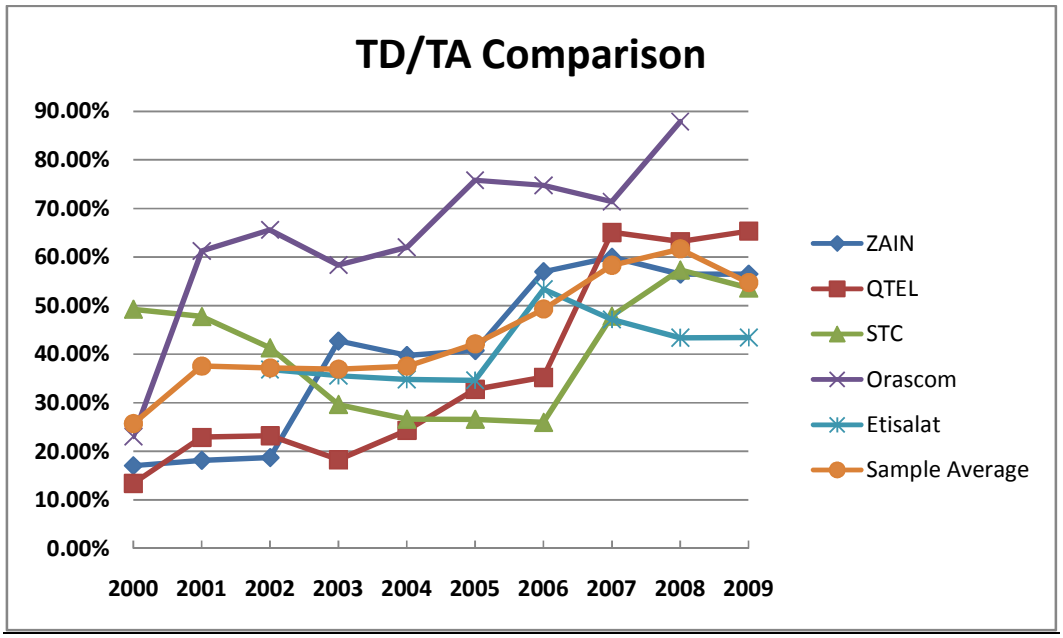


Fig. 6. TF/TA Comparison

f. Other Financial Indicators

In addition to the above discussed financial indicators Appendix III provides summary tables and graphs comparisons of other financial indicators.

F. MTC/ZAIN's Business Transformation Versus Theoretical Models

The previous section covered the turnaround change implemented in Zain over

a ten year period, starting from its privatization in the year 2000 to the year 2009 (inclusive) discussing the strategic changes, operational change initiatives and other strategic change enablers used during this period. Additionally, a financial analysis and financial comparison was conducted on Zain. This section will attempt to analyze the collected data on Zain and link them to the turnaround change and business transformation literature discussed in Chapter III.

1. Zain's Turnaround and Business Transformation Models

The collected data showed that it was quite clear that for the two years 2000 and 2001 Zain was in a weak strategic position and was exhibiting an inertial state where no significant actions were undertaken to maintain Zain's market leadership in Kuwait. With the arrival of new CEO Dr. Saad el Barrak, a business transformation was initiated and an expansion plan was kicked off in 2003. Business transformation literature has supplied us with three models as discussed earlier: The single silver bullet theory, the holistic model and the multistage model.

The evidence gathered in Zain's case showed the adoption of a multistage model using a holistic approach. In other words, Zain's case exhibits a combination of the holistic model and the multistage model. Silver bullets were used during the transformation to shape the organization at certain points.

The holistic model was evident as many of the key change characteristics, as put forth by McKeown and Philip (2003) were present in Zain's strategic change. Indeed, Zain's change was characterized by a new Vision (3 by 3 by 3), culture (customer orientation, Radiance, heart and belonging), skills (strategic HR) and constant improvement (ACE initiative). Additionally, it also clearly exhibited two of Spector's (1995) three drivers of holistic business transformation. The first is customer alignment

where it was clear that the first mindset change at Zain was to shift the technical oriented culture to one that aims to meet requirements, needs and values of the customer. The second driver, maximization of organizational learning, although not fully achieved, it was constantly sought after in Zain's change initiatives, especially ACE and its follow ups (MBM and Drive 11). The third holistic change driver, sequencing was not evident from the data collected since the change implementations were neither sequenced nor prioritized and were undertaken whenever an opportunity emerges.

On the other hand, the business transformation at Zain was also exhibiting the multi-stage model. The multistage model states that business transformation takes place over three stages: restructuring, revitalizing and renewal. Zain passed through the first two stages but failed to get to the third. Zain's business transformation fits into the multi-stage model as follows:

- *Stage 1: Privatization and initiation of business transformation (2000 to 2002)*
    - Objective: Maintaining profitability
    - Strategic Focus: Getting accountability and efficiency into the organization.
    - Key Activities: Downsizing, restructuring of the organization and building the customer orientation.
    - Culture: Top management control with a stress on cross functional involvement
- *Stage 2: Regional and International expansion (2003 to 2007)*
    - Objective: Growth in profits, EBIT and subscribers.
    - Strategic Focus: Expansion strategies, focus on customer needs

(holistic approach) and achieving organizational learning and synergies (ACE initiatives).

- Key Activities: A new vision (3 by 3 by 3), looking for regional and international investment opportunities (e.g. Fastlink, Celtel...), strategic alliances, building a flatter organization and consolidation of operations (ACE initiatives).

- Culture: Empowerment of employees and creating a family-like customer oriented organization.

The third stage was created by an economic factor, the global financial crisis in 2008 where Zain was forced to use further retrenchment measures through the Drive 11 initiative in order to achieve growth and profit sustainability. Nevertheless, the financial results in 2008 and 2009 showed that Drive 11 failed to achieve its objectives as PBT and ROI started decreasing. Consequently, the sale of the African operations in 2010 signaled the initiation of a new strategy which remains vague till date.

2. The Use of Competitive Strategies and Strategic Enablers

The corporate turnaround of Zain exhibited the use of competitive strategies and strategic enablers. International expansion and organizational development were the strategies standing out the most during this transformation. Process improvements and IT enhancements were evident in ACE and its follow ups presentations to stakeholders but the research was not able to get further evidence on these strategic enablers.

a. <u>Organizational Development (OD)</u>

Zain's business transformation relied heavily on organizational development. An Organizational Development unit was created in MTC to ease the business

transformation.

The heavy use of consultants, change in organizational structure, striving for the enhancement in organizational learning, team oriented functionalities and communication enhancement in the organization in addition to the cultural change enacted all point to the fact that OD was the basic strategic enabler on which Zain relied on to go through its turnaround.

b. International Expansion

Organizational development was used to set the stage for the implementation of the "3 by 3 by 3" strategy, a strategy which was based on international expansion.

Once Zain was privatized and competition closing in on Zain's market share, it was necessary for Zain's growth to proceed with expansion into other markets. Zain exhibited all of the international expansion strategic patterns discussed in the literature: Focus, Best Product-Differentiation, Customer Solutions Orientation and Strategic Alliances. Zain exhibited a "geographical focus" strategy, where its expansion was limited to the Middle East and Africa region. Best Product-Differentiation was evident in 2007 as Zain started its rebranding exercise with a heavy marketing and promotional campaign. Customer solutions orientation on the other hand was evident in the cultural change following its privatization where customer focus became the main driver of the organization, additionally initiatives such as the "One Network" provide further evidence of such focus. Finally, the most used pattern, strategic alliances was the main pattern exhibited in Zain's expansion. Non-structural alliances were mainly exhibited with Zain's co-branding with Vodafone and the management agreement in Lebanon. Structural alliances were evident in all other acquisitions Zain went through namely Celtel, Fastlink, in addition to green field acquisitions such as licenses in KSA and Iraq.

Thus, Zain's business transformation was concurrent with most change management literature models and theories discussed. Although the corporate turnaround achieved some notable achievements, it failed to achieve sustainability. Whether the failure was due to the inability of the change to cope with the surroundings or the severe effects of the global financial crisis in 2008 remains unclear. From the research conducted in this study, it was clear from the interviews that Zain was implementing the change at a slower pace than the expansion taking place, some initiatives, as fancy as they sound, were neither properly communicated nor designed to fit all local operators (eg. ACE and its follow ups were based on African operations). Additionally, the Celtel acquisition had two major weaknesses in implementation. First, the cultural differences between the African and the Middle East operations were too huge to be consolidated at such a fast pace. Second, following Celtel's acquisition, the two year minimal involvement as per Zain's choice led to a two year delay in the improvements that were supposed to be done upon the sale. This factor created inefficiency in the African operations and once Zain's management attempted to tackle it through ACE, it was a bit too late.

CHAPTER V

CONCLUSION

This paper addresses privatization as an initiator of business transformation. A general overview on privatization was provided, discussing its types, its role in efficiency improvements, its types in addition to other consideration such as restructuring, regulation, sequencing and exclusivity periods. A brief interview on four of the biggest five telecom operators was also provided before moving on to reviewing corporate turnaround literature.

Reasons for the need of corporate turnaround change were discussed in addition to a discussion on both traditional corporate turnaround research and strategic change in the turnaround change process. Lastly, the literature review tackled important business transformation models and theories to set a clear ground upon which the research will be analyzed.

A case study approach was used to study MTC/Zain's corporate turnaround. Through the use of a number of interviews with top executives, company publications and annual financial reports, the study was able to highlight the dynamics of the strategic change enacted in MTC/Zain in addition to both a comprehensive financial analysis of Zain and a financial comparison of the company compared to its direct rivals in the region. Finally, Zain's strategic approaches and change initiatives were linked to the literature review discussed earlier in the paper. Zain's corporate turnaround conformed to the models and theories discussed albeit with some variations.

A multi-stage business transformation with a holistic approach was evident in Zain's turnaround. Competitive strategies and strategic enablers such as organizational

development and international expansion were used to achieve this change.

The paper then concludes that although Zain's corporate turnaround was successful for the eight year period between 2000 and 2007 inclusive, reasons such as the rapidity of the change which made it hard to implement change initiatives at the same pace with the expansion, 2008 financial crisis, incompatibility of certain initiatives such as ACE with all the firm's operations, the inability to create a common culture between Africa and the Middle East and the two year delay in the actual management of Celtel had produced a weak financial performance in 2008 and 2009. This low return to investors has opted the adoption of a new transformation in Zain, signaled by the sale of all its African operations in the year 2010.

Even though research has shown that privatization yields growth and performance improvements in the short run, it is still questionable whether privatization is a sustainable solution in the long run. Zain's case was a clear example of a turnaround attempt that went too aggressive on expansion and eventually failed to achieve sustainability. Thus, further research should be made regarding the capability of privatization to produce a turnaround attempt that is sustainable.

Finally, it is important to note that this Zain's business transformation needs to be studied on a more micro level. This paper has presented its readers with an overview of Zain's transformation and some of the financial results accompanying it. Other dimensions such as stock process and KPI's should be looked into in the future in order to completely evaluate the strategic change and where it went wrong.

APPENDIX I

MANAGEMENT ACTIONS IN CORPORATE TURAROUNDS

Table 1. Management actions identified as changes in strategy for firms attempting turnarounds

Corporate-level management actions (domain-changing actions)

A. Acquiring firms or units of other firms competing outside historical lines of business (34%)

B. Acquiring firms or units of other firms competing within historical lines of business (45%)

C. Divesting organizational units intact (e.g., selling them as going entities) (61%)

D. Harvesting or liquidating the assets of units not divested (55%)

E. Establishing of new internal ventures or start-ups (37%)

F. Entering into joint ventures outside traditional lines of business (18%)

G. Contracting, expanding or simultaneously contracting and expanding (by region) the scope of the corporation's domestic operations (39%)

H. Contracting, expanding or simultaneously contracting and expanding the scope of the corporation's foreign operations (50%)

I. Changing priorities among the corporation's traditional set of businesses (79%)

Business-level management actions (changes in competitive decisions at the product-market level)

Marketing changes

1. Eliminating entire product or service lines from continuing businesses (61%)
2. Eliminating particular products or services from within the remaining lines (63%)
3. Introducing completely new products or services (outside those created by acquisitions or joint ventures) (68%)
4. Expanding marketing efforts to new segments of customers, eliminating certain segments of customers, or both (68%)
5. Increasing the average prices of the company's products in conjunction with increasing customer service and sales-related expenditures (8%)
6. Increasing the average prices of the company's products in conjunction with decreasing customer service and sales-related expenditures (3%)
7. Expanding the average scope of product distribution to a greater number of outlets (39%)

Manufacturing changes

8. Selling or closing inefficient or underutilized plants (68%)
9. Relocating existing manufacturing capacity to geographic regions where production would be less costly (37%)
10. Centralizing or decentralizing the corporation's manufacturing capacity (52%)
11. Modernizing manufacturing capacity with equipment utilizing new technologies (89%)
12. Contracting for components, subassemblies and products that were previously manufactured by the corporation (24%)
13. Beginning to manufacture components, subassemblies and products that were previously purchased (9%)
14. Spreading the purchases of materials, components and subassemblies across a greater number of suppliers (5%)

Research and development changes

15. Increasing or decreasing (as compared to historic levels) the capital available for research on new products or manufacturing processes (68%)
16. Increasing or decreasing (as compared to historic levels) the capital available for the commercial development of new products (84%)

Financial policy changes

17. Filing a bankruptcy petition for reorganization purposes (8%)
18. Liquidating major assets other than plants and production equipment such as office buildings, land holdings and blocks of securities in order to raise capital (21%)
19. Suspending capital expenditures for (what the respondent judged to be) a significant period of time (21%)

**Percentage of sample firms taking a certain management action is listed in parentheses.*

Source "Barker III and Duhaime, 1997"

APPENDIX II

ZAIN'S HR PHILOSPHY

Zain's Human Resource Philosophy consists of the 'five Fs' (Zain.com):

1. **Future**: Vigorously pursuing our vision of a leading global telecommunications company

2. **Fitness**: We are striving to achieve the agility and the flexibility to adapt to the challenges of new markets and competition and the changing needs of expansion.

3. **Fun:** Our corporate culture is conducive to an enjoyable work environment for all

4. **Freedom:** Our corporate culture is designed to promote openness – an openness in which employees can work and express their views without fear.

5. **Fortune**: As a company of choice for anyone considering a career in the industry – the development and growth opportunities we offer employees are second to none.

APPENDIX III

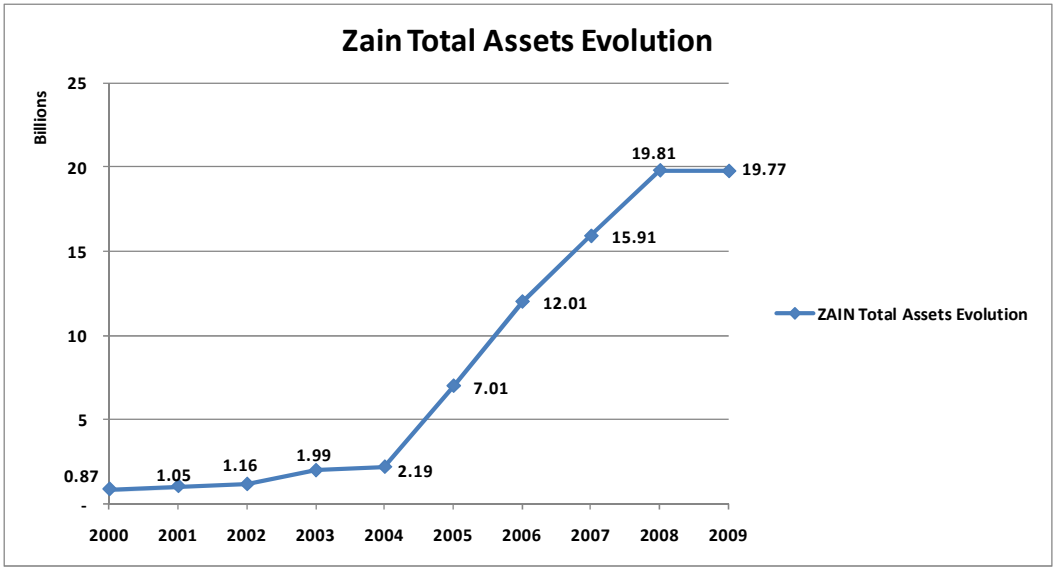
ZAIN FINANCIAL AND OPERATIONAL TABLES AND GRAPHS

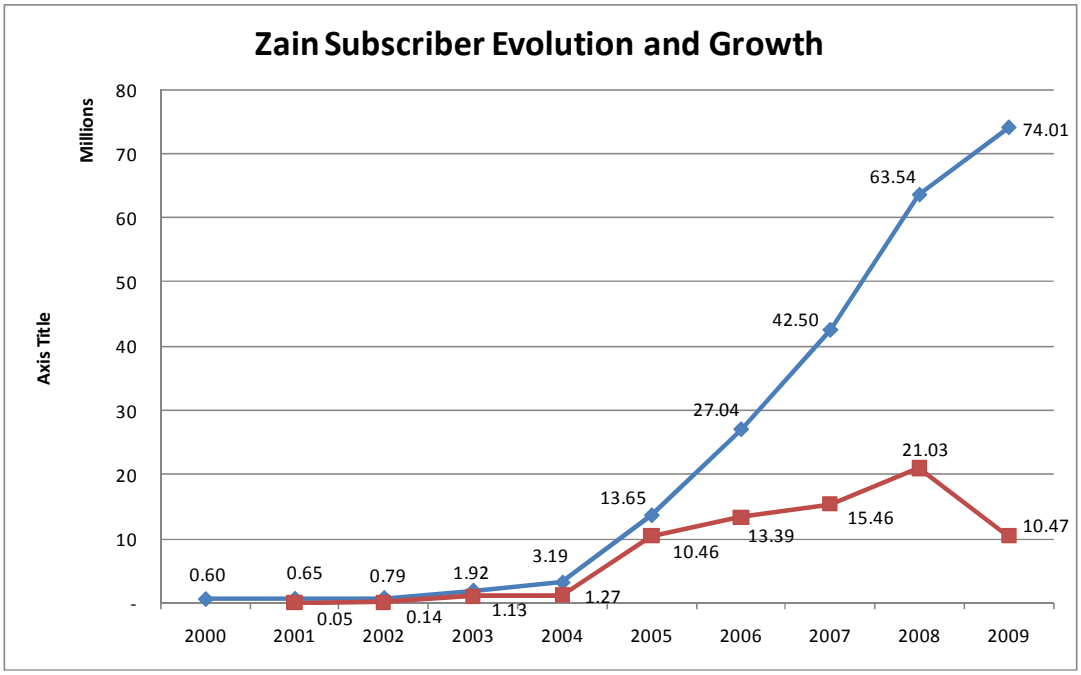
Item ('000) USD	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Total Assets	874,509	1,050,669	1,161,554	1,991,429	2,193,018	7,005,673	12,012,440	15,911,827	19,808,434	19,765,984
Total Current Assets	302,412	381,721	456,265	587,394	721,395	1,343,999	2,381,382	2,013,437	3,052,499	2,472,595
Fixed Assets	273,547	330,285	362,365	735,748	741,199	1,702,959	3,892,467	5,449,450	7,278,831	7,465,968
Total Liabilities	149,022	190,624	217,387	850,878	871,930	2,854,055	6,849,387	9,541,612	11,185,236	11,166,434
Total Equity	725,487	860,045	944,167	1,140,551	1,321,088	4,151,618	5,163,053	6,370,215	8,623,199	8,599,550
Revenues	390,134	394,053	440,858	890,644	1,088,024	1,974,297	4,464,457	6,111,385	7,193,681	8,044,032
Expenses	180,075	186,363	207,964	543,684	672,811	1,280,879	3,090,154	4,465,759	5,826,466	6,291,419
Operating Net Income	210,059	207,690	232,894	346,960	415,214	693,417	1,374,303	1,645,625	1,367,215	1,752,613
Net Income Before Taxes	227,670	222,507	249,334	368,133	432,105	696,793	1,200,238	1,397,467	1,403,610	869,751
Net Income	227,837	259,377	249,334	346,658	405,877	635,752	1,079,898	1,248,537	1,210,684	732,941
Number of Shares	483,323,062	483,323,062	483,323,062	507,489,216	814,053,897	997,466,731	1,861,802,808	3,352,917,359	3,692,924,099	3,869,853,106
Subscribers	600,000	651,000	786,000	1,920,000	3,192,000	13,650,000	27,037,000	42,501,000	63,535,000	74,009,300
Reported EPS	0.471	0.537	0.516	0.683	0.499	0.620	0.544	0.350	0.312	0.173

Financial Ratios	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
ROA	26.03%	21.18%	21.47%	18.49%	19.70%	9.95%	9.99%	8.78%	7.09%	4.40%
D/E	20.54%	22.16%	23.02%	74.60%	66.00%	68.75%	132.66%	149.78%	129.71%	129.85%
TD/TA	17.04%	18.14%	18.72%	42.73%	39.76%	40.74%	57.02%	59.97%	56.47%	56.49%
ROI	31.38%	25.87%	26.41%	32.28%	32.71%	16.78%	23.25%	21.94%	16.28%	10.11%

Growth Indicators	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Growth in Revenues	NA	1.00%	11.88%	102.03%	22.16%	81.46%	126.13%	36.89%	17.71%	11.82%
Growth in Expenses	NA	3.49%	11.59%	161.43%	23.75%	90.38%	141.25%	44.52%	30.47%	7.98%
Growth in Profit Before Taxes	NA	-2.27%	12.06%	47.65%	17.38%	61.26%	72.25%	16.43%	0.44%	-38.03%
Increase in Total Assets	NA	176,160	110,885	829,875	201,589	4,812,656	5,006,767	3,899,387	3,896,607	(42,450)
Investment in Fixed Assets	NA	56,738	32,080	373,383	5,451	961,760	2,189,507	1,556,984	1,829,381	187,137
% Increase in FA	NA	20.74%	9.71%	103.04%	0.74%	129.76%	128.57%	40.00%	33.57%	2.57%

Average Per Subscriber	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Revenue per Subscriber	0.65	0.61	0.56	0.46	0.34	0.14	0.17	0.14	0.11	0.11
Cost Per Sub	0.30	0.29	0.26	0.28	0.21	0.09	0.11	0.11	0.09	0.09
Profit before Tax Per Sub	0.38	0.34	0.32	0.19	0.14	0.05	0.04	0.03	0.02	0.01
Net Profit Per Sub	0.38	0.40	0.32	0.18	0.13	0.05	0.04	0.03	0.02	0.01
Subscriber Additions	NA	51,000	135,000	1,134,000	1,272,000	10,458,000	13,387,000	15,464,000	21,034,000	10,474,300
Subscriber Growth	NA	8.50%	20.74%	144.27%	66.25%	327.63%	98.07%	57.20%	49.49%	16.49%




Zain Subscriber Evolution and Growth
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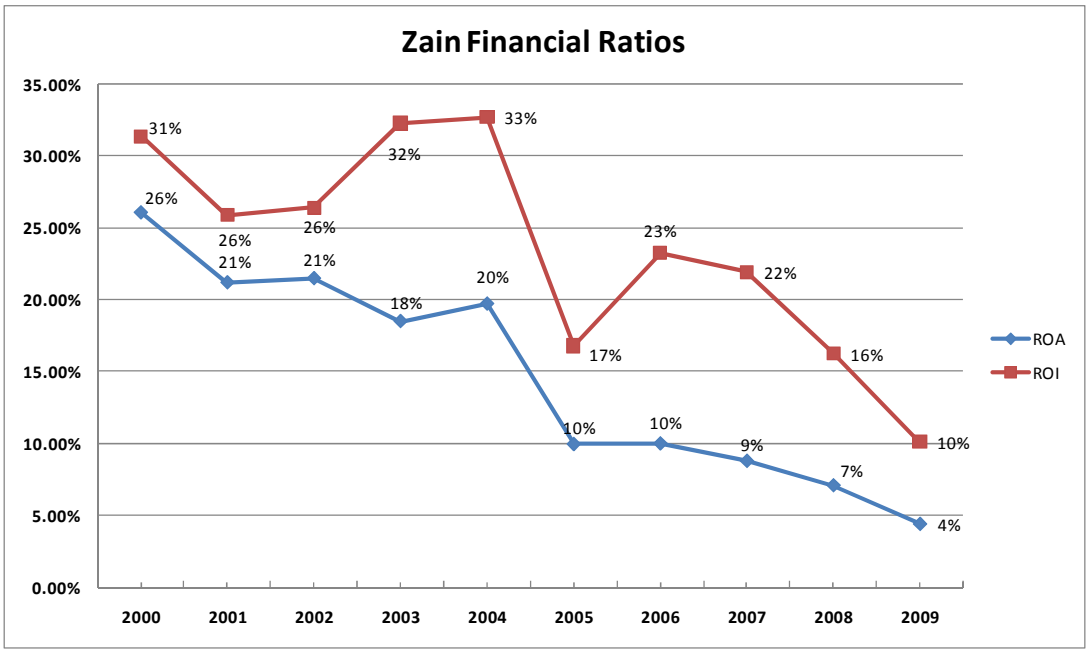
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APPENDIX IV

COMPETITOR'S FINANCIAL AND OPERATIONAL TABLES AND GRAPHS

Item ('000) USD	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Total Assets	597,190	711,553	836,124	958,742	1,388,124	1,750,424	2,141,168	12,948,334	20,059,904	23,309,715
Total Current Assets	345,361	446,392	540,186	479,248	508,054	606,953	660,163	1,608,839	3,285,229	4,381,494
Fixed Assets	251,830	265,161	295,938	349,469	485,180	683,892	835,198	2,592,262	6,403,700	8,122,495
Total Liabilities	80,228	163,032	194,285	175,330	337,328	573,516	754,486	8,426,459	12,672,630	15,232,579
Total Equity	516,963	548,521	641,839	783,411	1,050,796	1,176,908	1,386,682	4,521,875	7,387,274	8,077,135
Revenues	363,705	421,663	472,048	556,259	644,498	818,728	1,213,145	2,841,905	5,572,059	6,593,251
Expenses	176,653	194,263	213,200	243,934	278,405	428,435	632,089	2,000,030	4,025,682	5,101,462
Operating Net Income	187,052	227,400	258,848	312,325	366,093	390,294	581,056	841,875	1,546,378	1,491,789
Net Income Before Taxes	199,041	227,400	258,848	312,325	406,415	400,019	477,082	499,636	855,334	1,234,448
Net Income	199,041	227,400	258,848	312,325	406,415	400,019	451,842	514,495	803,015	1,065,097
Number of Shares	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	130,445	146,667
Reported EPS	1.99	2.37	2.62	3.15	4.06	3.27	4.64	4.59	4.85	5.20
Financial Ratios	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
ROA	33.33%	31.96%	30.96%	32.58%	29.28%	22.85%	22.28%	3.86%	4.26%	5.30%
D/E	15.52%	29.72%	30.27%	22.38%	32.10%	48.73%	54.41%	186.35%	171.55%	188.59%
TD/TA	13.43%	22.91%	23.24%	18.29%	24.30%	32.76%	35.24%	65.08%	63.17%	65.35%
ROI	38.50%	41.46%	40.33%	39.87%	38.68%	33.99%	34.40%	11.05%	11.58%	15.28%
Other Indicators										
Growth in Revenues	NA	15.94%	11.95%	17.84%	15.86%	27.03%	48.17%	134.26%	96.07%	18.33%
Growth in Expenses	NA	9.97%	9.75%	14.42%	14.13%	53.89%	47.53%	216.42%	101.28%	26.72%
Growth in Profit Before Taxe	NA	14.25%	13.83%	20.66%	30.13%	-1.57%	19.26%	4.73%	71.19%	44.32%
Investment in Fixed Assets	NA	13,331	30,777	53,532	135,710	198,712	151,306	1,757,064	3,811,438	1,718,794
% Increase in FA	NA	5.29%	11.61%	18.09%	38.83%	40.96%	22.12%	210.38%	147.03%	26.84%

STC										
Item ('000) USD	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
Total Assets	9,405,379	10,443,384	10,908,182	11,137,724	11,229,876	11,930,955	12,298,371	18,290,029	26,554,685	29,209,446
Total Current Assets	1,734,898	2,245,858	2,113,446	2,368,644	2,745,347	3,186,506	3,563,052	3,715,202	5,043,152	6,040,639
Fixed Assets	7,368,196	7,964,066	8,536,704	8,507,278	8,207,309	8,141,515	8,033,733	9,135,359	11,813,478	14,056,486
Total Liabilities	4,632,392	4,984,530	4,506,815	3,300,232	2,988,723	3,170,052	3,191,116	8,749,967	15,225,565	15,660,432
Total Equity	4,772,987	5,458,854	6,401,368	7,837,492	8,241,154	8,760,902	9,107,254	9,540,062	11,329,120	13,549,014
Revenues	4,513,628	5,274,108	6,278,118	7,276,871	8,131,859	8,676,776	8,637,746	9,158,885	12,635,396	13,534,924
Expenses	3,485,118	3,938,820	5,001,621	4,800,606	5,337,649	5,113,784	5,265,118	5,805,047	8,553,489	10,119,591
Operating Net Income	1,028,509	1,335,288	1,276,498	2,476,265	2,794,209	3,562,991	3,372,628	3,353,838	4,081,908	3,415,333
Net Income Before Taxes	1,080,141	953,944	969,986	2,333,392	2,550,872	3,396,884	3,504,175	3,308,203	3,205,434	3,233,228
Net Income	1,053,836	927,498	945,390	2,273,091	2,483,479	3,318,955	3,412,827	3,195,377	2,938,054	2,895,519
Number of Shares	State Owned	State Owned	State Owned	299,974	299,978	299,997	1,999,828	2,000,288	1,999,610	2,000,618
Reported EPS	NA	NA	NA	7.58	8.28	11.06	1.71	1.60	1.47	1.45
Financial Ratios	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
ROA	11.48%	9.13%	8.89%	20.95%	22.72%	28.47%	28.49%	18.09%	12.07%	11.07%
D/E	97.05%	91.31%	70.40%	42.11%	36.27%	36.18%	35.04%	91.72%	134.39%	115.58%
TD/TA	49.25%	47.73%	41.32%	29.63%	26.61%	26.57%	25.95%	47.84%	57.34%	53.61%
ROI	22.63%	17.48%	15.15%	29.77%	30.95%	38.77%	38.48%	34.68%	28.29%	23.86%
Other Indicators										
Growth in Revenues	NA	16.85%	19.04%	15.91%	11.75%	6.70%	-0.45%	6.03%	37.96%	7.12%
Growth in Expenses	NA	13.02%	26.98%	-4.02%	11.19%	-4.19%	2.96%	10.25%	47.35%	18.31%
Growth in Profit Before Taxes	NA	-11.68%	1.68%	140.56%	9.32%	33.17%	3.16%	-5.59%	-3.11%	0.87%
Investment in Fixed Assets	NA	595,870	572,638	(29,426)	(299,969)	(65,794)	(107,782)	1,101,626	2,678,119	2,243,008
% Increase in FA	NA	8.09%	7.19%	-0.34%	-3.53%	-0.80%	-1.32%	13.71%	29.32%	18.99%

Orascom									
Item ('000) USD	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
Total Assets	675,825	832,505	2,728,105	2,869,706	4,067,967	6,917,353	8,675,394	11,344,000	9,920,000
Total Current Assets	146,346	112,233	720,607	522,262	1,068,039	1,043,712	1,595,531	3,601,000	1,765,000
Fixed Assets	2,049	3,325	709,265	1,107,703	1,711,834	2,918,863	4,041,133	4,803,000	5,057,000
Total Liabilities	155,939	510,100	1,789,597	1,675,062	2,522,645	5,245,482	6,486,872	8,102,000	8,719,000
Total Equity	519,886	322,405	938,508	1,194,644	1,545,322	1,671,871	2,188,521	3,242,000	1,201,000
Revenues	1,734	6,081	826,374	1,120,157	1,966,053	3,225,830	4,424,289	4,727,000	5,327,000
Expenses	46,026	93,213	784,399	893,551	1,284,425	2,328,964	3,085,391	3,477,000	3,869,000
Operating Net Income	(44,292)	(87,132)	41,975	226,606	681,628	896,866	1,338,897	1,250,000	1,458,000
Net Income Before Taxes	3,893	(118,366)	4,048	166,566	549,963	927,415	760,379	1,617,000	906,000
Net Income	3,893	(118,366)	233,077	179,725	440,464	784,549	788,013	2,083,000	503,000
Number of Shares	99,166,667	110,000,000	109,733,874	109,337,261	109,637,141	218,597,534	217,362,744	1,044,814,496	938,921,024
Reported EPS	0.04	(1.08)	2.06	0.92	2.69	3.05	0.66	1.06	0.46
Financial Ratios	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
ROA	0.58%	-14.22%	0.15%	5.80%	13.52%	13.41%	8.76%	14.25%	9.13%
D/E	29.99%	158.22%	190.69%	140.21%	163.24%	313.75%	296.40%	249.91%	725.98%
TD/TA	23.07%	61.27%	65.60%	58.37%	62.01%	75.83%	74.77%	71.42%	87.89%
ROI	0.75%	-36.71%	0.43%	13.94%	35.59%	55.47%	34.74%	49.88%	75.44%
Other Indicators									
Growth in Revenues	NA	250.71%	13490.09%	35.55%	75.52%	64.08%	37.15%	6.84%	12.69%
Growth in Expenses	NA	102.52%	741.51%	13.92%	43.74%	81.32%	32.48%	12.69%	11.27%
Growth in Profit Before Taxes	NA	-3140.20%	-103.42%	4014.83%	230.18%	68.63%	-18.01%	112.66%	-43.97%
Investment in Fixed Assets	NA	1,276	705,940	398,438	604,132	1,207,028	1,122,270	761,867	254,000
% Increase in FA	NA	62.28%	21229.69%	56.18%	54.54%	70.51%	38.45%	18.85%	5.29%

Item ('000) USD	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
Total Assets	4,372,712	4,864,300	5,549,654	6,547,384	12,495,824	14,587,063	17,121,228	19,429,254
Total Current Assets	1,787,082	2,418,236	2,615,173	3,529,262	3,689,114	3,685,606	4,741,203	5,324,936
Fixed Assets	2,476,391	2,360,157	2,342,945	2,308,168	2,312,412	3,028,962	3,565,036	4,786,742
Total Liabilities	1,610,833	1,728,740	1,932,605	2,266,998	6,672,462	6,876,290	7,428,379	8,435,287
Total Equity	2,761,879	3,135,560	3,617,049	4,280,386	5,823,363	7,710,773	9,692,850	10,993,967
Revenues	2,179,073	2,511,617	2,840,701	3,501,839	4,434,045	5,808,068	7,989,352	8,392,304
Expenses	1,534,424	1,749,069	1,942,825	2,419,780	2,910,901	4,009,146	6,206,432	5,992,871
Operating Net Income	644,649	762,548	897,876	1,082,059	1,523,144	1,798,921	1,782,920	2,399,433
Net Income Before Taxes	671,076	786,129	935,288	1,168,008	1,615,734	2,019,213	2,227,901	2,402,580
Net Income	671,076	786,129	935,288	1,168,008	1,615,734	1,985,928	2,315,968	2,405,253
Reported EPS	NA	2.37	0.26	0.26	0.35	0.33	0.32	0.33
Financial Ratios	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
ROA	15.35%	16.16%	16.85%	17.84%	12.93%	13.84%	13.01%	12.37%
D/E	58.32%	55.13%	53.43%	52.96%	114.58%	89.18%	76.64%	76.73%
TD/TA	36.84%	35.54%	34.82%	34.62%	53.40%	47.14%	43.39%	43.42%
ROI	24.30%	25.07%	25.86%	27.29%	27.75%	26.19%	22.98%	21.85%
Other Indicators								
Growth in Revenues	NA	15.26%	13.10%	23.27%	26.62%	30.99%	37.56%	5.04%
Growth in Expenses	NA	13.99%	11.08%	24.55%	20.30%	37.73%	54.81%	-3.44%
Growth in Profit Before Taxes	NA	17.14%	18.97%	24.88%	38.33%	24.97%	10.34%	7.84%
Investment in Fixed Assets	NA	(116,233)	(17,212)	(34,777)	4,244	716,550	536,074	1,221,706
% Increase in FA	NA	-4.69%	-0.73%	-1.48%	0.18%	30.99%	17.70%	34.27%

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