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„Market Entry of Telecommunication Corporations in CEE countries: An example of the expansion of Telekom Austria to North Macedonia“

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Abstract

In this master's thesis, multiply market entry modes are discussed, focusing on the entry of Telekom Austria into the North Macedonian Market. The character of the telecommunication industry is highlighted. Information of the company and interviews with persons included directly in the expansion politic give a holistic view of the decision-making process, weighing the challenges they have to solve.

Key words: Telecommunication industry, CEE Countries, market entry modes.

Kurzerfassung

Diese Masterarbeit analysiert und diskutiert unterschiedliche Markteintrittsvarianten mit einem Schwerpunkt auf Telekom Austrias Eintritt in den nordmazedonischen Markt. Weiters wird der spezifische Charakter der Telekommunikationsbranche in Bezug auf Expansionsmodi hervorgehoben. Unternehmensinformationen sowie Interviews mit den Entscheidungsträgern, die in Telekom Austrias Expansionsschritte nach Nordmazedonien involviert waren, geben holistisches Bild der Entscheidungsprozesse und der Herausforderungen, die zu lösen waren.

Schlagwörter: Telekommunikationsindustrie, MOEL, Markteintrittsstrategien.

Erklärung

„Ich erkläre eidesstattlich, dass ich die Arbeit selbständig angefertigt, keine anderen als die angegebenen Hilfsmittel benutzt und alle aus ungedruckten Quellen, gedruckter Literatur oder aus dem Internet im Wortlaut oder im wesentlichen Inhalt übernommenen Formulierungen und Konzepte gemäß den Richtlinien wissenschaftlicher Arbeiten zitiert, durch Fußnoten gekennzeichnet bzw. mit genauer Quellenangabe kenntlich gemacht habe.“

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Abbreviations

- R&D: Research and Development
- VMRO-DPMNE: Internal North Macedonian Revolutionary Organization – Democratic Party for North Macedonian National Unity
- SDSM: Social Democratic Union of Macedonia
- CEE: Central Eastern Europe
- MNC: multinational corporation
- MK: Macedonia
- NATO: North Atlantic Treaty Organization
- EU: European Union
- Equity Joint Venture (EJV)
- PTO: Public telecommunications operator
- ITU: International Telecommunication Union
- SEE: Southeast Europe
- NLA: National Liberation Army
- H: Hypothesis
- CFO: Chief Finance Officer
- CTO: Chief Technology Officer
- M&A: Merging and acquisition
- WOS: Wholly-owned subsidiary
- TSP: Traveling salesman problem
- TCE: transactional cost economics
- LY: Last year
- MC: Marginal cost
- ATC: Average total cost
- FYROM: Former Yugoslav Republic of Macedonia

1 Introduction

When companies reach growth limits in their home markets they consider expanding to new ones. In the telecommunications industry this became a common topic after the wave of deregulation of the previous national monopolies in the 1990s and 2000s (chapter 5). Due to vanishing monopoly rent in their home markets they had to consider expanding elsewhere to compensate and unlock growth opportunities. And these were manifold at that time – GSM licenses were auctioned in numerous countries and municipal cable networks were on sale. In this thesis the author will examine whether the market entry decisioning models as presented in literature can be applied to telecommunications industry. The paper will present the current state of scientific theory, will look at the specifics of telecommunications industry, the market entry options to the CEE countries and will illustrate them with the case of Telekom Austria's expansion into the North Macedonian Market.

According to Chen and Mujtaba (2007) and Koch (2001), there are several factors that a company willing to go abroad should take into consideration or should investigate before entering a new market. These factors can be divided into market-specific, firm-specific, and country-specific on one hand and external and internal factors (chapter 4) on the other hand. Once these will be investigated in the target country, the company can decide among a range of market entry modes, which one would be the most appropriate for their specific setup and situation, said Tse (2000). After the company has settled down and generated insights into its new market, it might change the initially chosen entry mode when it comes to entering another business segment or starting another cooperation in this market.

Meyer (2001) stated that the costs of entering a market are increase when the target market is a country in transition. The North Macedonian market can be considered as such, looking back to a bumpy ride in the last three decades: Originally part of a much larger country – Yugoslavia – which afterward fell apart into seven small markets it gained independence in

1991 leaving the country cut off the majority of what used to be a common market. This fact as well as the aftermath of the Yugoslavia war that the country had to cope with left North Macedonia (then still called Macedonia or FYROM – Former Yugoslav Republic of Macedonia) in a critical economic situation after its foundation. A potential way out the subsequent governments saw was to bring up FDIs into the country. Nevertheless, the government encountered challenges from multiple sides: Within its territory, North Macedonia faced increasing tensions between the ethnic Macedonian majority and the Albanian minority, on one side. On the other side, the country was facing a blockage by Greece on international level, which impeded the country to participate in or adhere to various international organizations, including the European Union or NATO, all of which could have increased the attractiveness of the country as a target for FDI inflows. All of these aspects make it obvious that a multitude of factors have to be considered for the optimal market entry decision. In this thesis they will be elaborated – starting with a general level, then narrowing down first to the specifics of the CEE region, then of one specific industry, telecommunications, to conclude with the precise situation of one company on their expansion path: Telekom Austria.

1.1 Purpose

The purpose of this thesis is to assess whether prevailing theories of market entry decision can be fully applied to a specific industry in a specific market – telecommunications in the CEE region. In case deviations can be observed and adaptations have to be made, this paper seeks to shed light on the reasons behind and to synchronize them with practitioners' experience.

1.2 Research Questions

The research questions to be verified or falsified in the course of this thesis are the following:

Research question 1: Do market entry decisions in Telekom Austria follow the general market entry logic by Chen and Mujtaba or Koch? If not in which way do they differ?

Research question 2: Did Telekom Austria follow a similar approach for each market they entered? What were the key differences?

Research question 3: Once having entered a market, did Telekom Austria adapt further expansion steps in this market according to the learnings gathered from the entry? What were the learnings?

Research question 4: Does Telekom Austria support or defy the experiential learning from the Uppsala model made on similar markets?

1.3 Outline

This paper consists of 9 chapters. After the introduction part, the author will first analyze reasons companies have for expansion. In chapter 2 the market entry modes are discussed followed by the sequential market entry. Chapter 4 describes the relevant factors that can influence the different market entry modes in general and those specific to CEE countries. Further on in chapter 5 a deeper look will be taken into the telecommunication industry and its characteristics. The methodology that was used for solving the research questions will be presented in chapter 6 where the reader can get a better understanding of the solving process. The North Macedonian market as such, and its political system, economic data, weaknesses, and strengths are presented in chapter 7.3. The chapter will also examine the factors that made it difficult for North Macedonia to acquire foreign direct investments. At the end of this chapter, the main market players in the telecommunication industry in North Macedonia at the time under examination will be presented followed by an outline of the company background of one of these actors, Telekom Austria. In chapter 8 the collected data in reference to the theory has been discussed. The paper will conclude with an acceptance or

rejection of the research questions, the findings will be summed up and an outlook into potential further research on the topic will be given.

2 Foreign market expansion and market entry modes

According to Howard (2005), the opening of the foreign markets attributed to a growth of the foreign market expansion. The geographical expansion makes it possible for companies to produce more, grow faster, create a higher value (Howard, 2005). Nevertheless, different markets have different market conditions and challenges such as political, economic, legal, and cultural. McDougall and Oviatt (1996) mentioned that these conditions bring several changes with them and adaptations within the company. All of these factors (political, economic, legal, and cultural) also influence the market entry mode (Lu and Beamish, 2001).

According to Erramilli and Rao (1993), and Malhotra et al. (2003), market entry strategy determines the way a company develops, the way it coordinates its business activities, as well as its success or failure on the market (Scott, 2000). When choosing a market entry strategy the company should take into consideration the strategic objectives (Albaum et al, 2004), the barriers of the target market, as well as the liability of foreignness (Chen et al, 2006). Market entry is defined by Kim et al. (2002) as “an organization-wide arrangement that makes feasible the entry of a company’s products, technology, human skills, the management or other resources into a foreign country” (Acheamponga and Kumah, 2012, p. 634).

Normally the managers decide upon the market entry form. As mentioned by Kumar and Subramaniam (1997), managers decide based on a hierarchical perspective. They would first define a multi-level structure hierarchy and criteria for evaluating those. Each hierarchy would consist of a few factors. The first hierarchy levels are the equity and non-equity modes. After managers had concluded between these, they should decide among the sub-categories. Generally, as can be seen in table 1, non-equity modes split into Export (Direct export, indirect export, and others) and Contractual Agreements (Licensing, R&D contracts,

Alliances, and others) and on the other hand Equity Modes split on Equity Joint Ventures (Minority EJV, 50% share, Majority EJV), and Wholly-owned Subsidiary (Greenfield, Acquisition, and others) (Tse, 2000).

Table 1:

A Hierarchical Model of Choice of Entry Modes			
Non-Equity Modes		Equity Modes	
Export	Contractual Agreements	Equity Joint Venutres	Wholly Owned Subsidiary
Direct export	Licensing	Minority equity joint venture	Greenfield
Indirect Export	R&D contracts	50% share equity joint venture	Acquisition
Others	Alliances	Majority equity joint venture	Others
	Others		

Source: Tse (2000), p. 538

2.1 Non-equity modes

2.1.1 Contractual agreements

Kumar and Subramaniam (1997) stated that a contractual agreement is an agreement between a company and an agent to produce or to distribute goods in a foreign market in return for economic rents. According to Liang et al. (2006) companies engaged in areas with “mature technology” and a higher level of product standardization will typically choose contractual modes when expanding internationally (Linag et al., 2009). As already mentioned before, there are various forms of contractual entry modes: Licensing and Franchising, Research and Development contracts, and Alliances (Mottner and Johnson, 2000).

2.1.2 Licensing and Franchising

Licensing and franchising are permission of a home company to a host country company to use its technology, or knowledge against payment. (Johnson and Tellis, 2008). This means that the host company may use the manufacture, trade, or use the licensors name. Licensing is the first choice of early mover due to the fewer resources request and at the same time it allows them to take advantage of already established resources, stated by Gallego (2009) (Isa et al., 2009).

Licensing has the first-mover advantage when a company enters a transitional economy or emerging market, as it minimizes risks while gaining an access to a growing market and at the same time it makes a barrier for other entrants. Licensing is a fast way of entering a market hence, it can be used in the case of the introduction phase of a products' life (Mottner and Johnson, 2000). Nevertheless, Aulakh et al (1998) argue that licensing is accompanied by three different risks:

1. Host country economic and legal factors
2. opportunistic behavior potential
3. uncertainty of the value of the license.

And those are only a part of the risks being identified in the researches. Licensing is also accompanied by the risk of production risks, payment risk, marketing control risk, and others (Mottner and Johnson, 2000).

2.1.3 Strategic alliances

The second form of non-equity modes is strategic alliances. According to Chen and Messner (2009), strategic alliances can be formed with a locally established company, a company from the same country, or even a company from another country. The formation of an alliance means an agreement to share technology, resources, profit, and also boost the needs

of one another for a longer period. Tse et al. (1997) argue that by choosing strategic alliances the investment risk can be minimized, use the same technology, and the efficiency can be improved, hence better international competitiveness and mobility. Nevertheless, strategic alliances also have several disadvantages, such as the risk of lost control over the technology, different interests over the strategies, asymmetry in sharing resources, etc. (Chuan and Messner, 2009).

2.2 Equity modes

2.2.1 Joint venture

In a joint venture two parents out of which one is in the home country and the other in the host country share an ownership (Johnson and Tellis, 2008).

Joint ventures can help a company to be flexible strategically and organizationally and at the same time save money by using the infrastructure and liabilities of the host country partner. (Isa et al., 2009). Nevertheless, joint ventures are avoided because they are believed to eliminate the “the incentives to shirk on the partner” (Meyer, 2001, p. 360).

2.2.2 Merging

In a case of merging, two companies unite and only one – the acquirer - survives, the target company ceases to exist. The acquirer gets the assets and liabilities. In some cases, both of the companies stop existing and they create a third one (Gaughan, 2013).

In table 4 one can see the advantages and disadvantages of this form.

Table 2:

ENTRY MODE	ADVANTAGES	DISADVANTAGES
Merging	Merged power and control	Over capacity
	Decrease risk	Re-skilling

Source: Essays UK, available: <https://www.ukessays.com/essays/economics/advantages-and-disadvantages-of-mergers-and-acquisition-economics-essay.php>, last accessed: 16.12.2020

2.2.3 Wholly-owned subsidiary

As one can see in Table 1, a wholly-owned subsidiary has a couple of under-categories, such as greenfield, acquisitions, brownfield.

Cheng (2006) defined Greenfield as an “entry into a foreign market which involves the establishment of a new affiliate in a host country by another firm headquartered outside the country” (Cheng, 2006, p. 203).

Japanese company investors with high resource and development levels would prefer greenfield because they think it is more competently for the transfer of firm-specific advantages. As mentioned by Park (1993) they would also prefer greenfield as an entry mode which reduces riskiness as a result of the leaders’ know-how (Hennart and Park, 1993).

Cheng (2006) understands, the second form of a wholly-owned subsidiary, acquisition as a purchase of an existing company in the host country by another company, which is in the home country and has sufficient control over it (Cheng, 2006). The advantages of acquisition can be seen below in Table 3.

Table 3:

Reasons for Acquisitions	Problems in Achieving Success
Increased market power	Integrated difficulties
Overcoming entry barriers	Inadequate evaluation of target
Cost of new product development and increased speed to market	Large or extraordinary debt
Lower risk compared to developing new products	Inability to achieve synergy
Increased diversification	Too much diversification
Reshaping the firm's competitive scope	Managers overly focused on acquisitions
Learning and developing new capabilities	Too large

Source: Hitt, M.A., Ireland, R.D., Hoskisson, R.E. (2009), p. 199

Demirbag et al. (2008) argue that an acquisition market mode entry is faster than greenfield, therefore in a fast-growing market, the entrant might prefer to acquire. Furthermore the authors also confirm that acquisition would be preferred when a company expands its activities into a country with a higher market potential level (Demirbag and Glaister, 2008).

And the last form brownfield Cheng (2006) defines as “brownfield entry into a foreign market is a new operation that entails the purchase of an existing firm by an acquirer headquartered outside the country alone or with one or more partners. The newly acquired firm in the host country is then gutted and comprehensively restructured, primarily with resources (Employees, plants, equipment, product lines) provided by the acquirer(s), during a short transformation period” (Cheng, 2006, p.203).

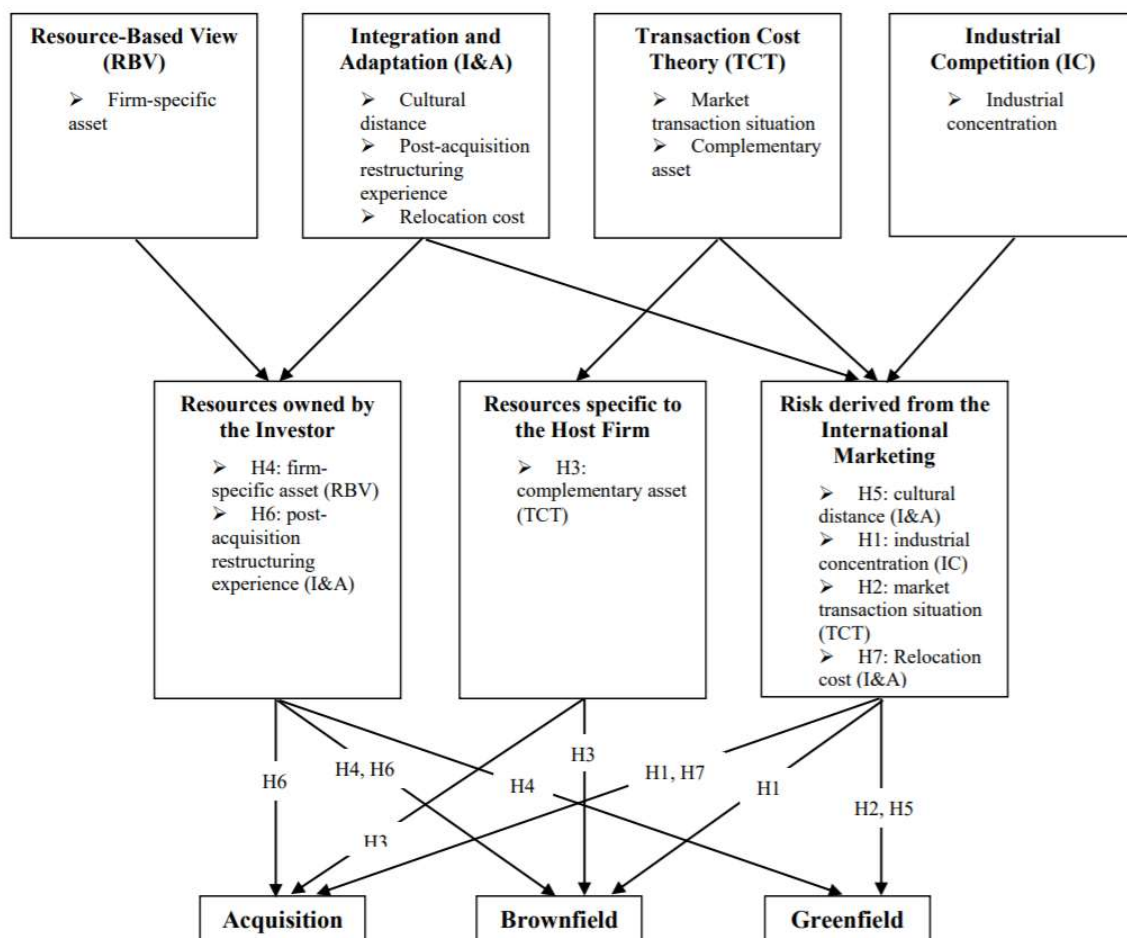
Meyer and Estrin (2001) see the advantages of brownfield than acquisition in the reducing of costs that normally occur when searching targets, negotiation with the management, by considering broader potential targets. Yet, conflicts can occur when restructuring the acquired company (Meyer and Estrin, 2001).

According to Hill (2011), with wholly-owned subsidiaries the company can implement a transitional strategy to benefit from the profit generation on one market to arise its competitiveness in another market. (Ling et al., 2005). This form of market entry gives the company control over all its operations and the possibility to shift profits from one to another according to the needs (Hill and Jones, 2011).

As disadvantages are full costs and risk mentioned, hence the local investment in a host country, as well as the culture problems. It also requires high commitment regarding firms' assets and capabilities, and the company has to face social and cultural changes to minimize potential problems (Hill and Jones, 2011).

Figure 1 presents the preferable market entry choice among the wholly-owned subsidiaries:

Figure 1:



Source: Cheng (2006), p. 206

3 Sequential market entry

As claimed by Johanson and Vahlne (1997) and Davidson (1980) the entry mode decision is not permanent, but rather a sequential process. Kogut (1983) argues as well that market entry mode decisions are a series of decisions. These statements were confirmed by Japanese firms' empirical evidence, which showed that organizations who previously invested in a foreign market would invest subsequently. Considering that multinational companies are diversified and make a couple of entries in different fields into the same host market, transaction cost theory and cultural factors are rather limited conventional explanations of the market entry mode decisions. The transaction cost theory assumes that partner opportunism (according to Williamson (1985, p.30) opportunism is "self-interest seeking behavior with guile" which can be a threat of the successful international market entry) remains unchanged over the years forgetting that experience and familiarity with the partner can reduce this threat. Concerning cultural difference it assumes that the cultural distance remains unchanged over the years, disregarding that with a company's experience cultural distance reduces. However, several experiments were conducted on including noninvestment factors such as experience and familiarity in the decision of entry modes. The result was the hypotheses of the researchers Gomes-Cassere (1989), Agarwal and Ramaswami (1992) that companies with wider experience would rather enter a market with a wholly-owned subsidiary. However, all these arguments face the limitation of not including the sequence of market entry. Accordingly, there is a gap in some researches related to the experience of the company with the choice of entry modes. Lately, various researchers, such as Prahalad and Hamel (1990); Teece, Pisano, and Shuen (1997) elaborated on the knowledge-based theory which argues that companies "compete based on their ability to learn and to apply knowledge" (Chang and Rosenzweig, 2001, p.751). It can be concluded that companies try to find the most efficient way to explore the market and earn knowledge by focusing on more than just minimizing costs. With the knowledge they have earned they learn that the initially chosen market entry mode might not be the best one under the new circumstances (Chang and Rosenzweig, 2001). According to

various researchers, companies become more confident being confronted by uncertainties or estimate risk thanks to the experience they gained. Chang and Rosenzweig investigated the influence of the following factors on the market entry mode before and after gaining experience on the market: business factors, cultural distance, and firm factors and they concluded with the following hypotheses:

Earlier: Hypothesis (H) 1a: “Greater competitive advantage over local firms will be positively associated with greenfield investment rather than acquisition or joint venture.”

After gaining experience: H 1b: “The association between competitive advantage over local firms and greenfield investment will be stronger for early entries than for subsequent entries.”

Earlier: H 3a: “Cultural distance between the home market and the host market will be positively associated with greenfield investment rather than acquisition or joint venture.”

After: H 3b: “The association between cultural distance and greenfield investment will be weaker for subsequent entries than for early entries.”

Earlier: H 4a: “Prior international sales experience will be positively associated with greenfield investment rather than acquisition and joint venture.”

After: H 4b: “The association between prior international sales experience and greenfield investment will be stronger for earlier entries than subsequent entries.” (Chang and Rosenzweig, 2001, pp. 753 - 755).

3.1 Country market sequential Order-of-Entry: A learning effects approach

Craig and Douglas stated that companies in general pass through three stages in their internationalization process: initial entry, local market expansion, and global rationalization (Azab, Key, and Clark, (2017). The first stages includes: country market selection, organisation/preparation to enter selected country markets, strategic order-of entry, or timing

to enter, and mode of entry. Most scholars are interested in two types of order-of-entry: strategic order-of-entry and sequential order-of-entry. The strategic order-of-entry “explores the benefits, problems, and consequences of firms being first (pioneers), second (followers), and subsequent (late) entrants into markets, so Lambkin (1988), Mascarenhas (1992), Wilkie and Johnson (2016)” (Azab, Key, and Clark, 2017, p. 210). The sequential order-of-entry focuses on “identifying the rationale firms use (or could use) to determine the order in which to enter a set of desirable country markets” (Azab, Key, and Clark, 2017, p. 210). This sequential market entry refers to markets that are close to each other in the internalization. The most important fact in this study is that the managers would focus on the learning effects earned by entering a new market. This learning effect should decrease the cultural and psychic distance between the countries. Azab, Key, and Clark (2017) used the Uppsala model of internationalization and the traveling salesman problem to develop their arguments. According to the Uppsala model of internationalization when companies select a new market to entry they should choose a similar market to those they are already operating in, in order to be able to use the market knowledge. This can help them build companies capabilities and expand faster, as mentioned by Weerawarden et al. (2015) (Azab, Key, and Clark, 2017). Each market entry brings some learnings. This learning help the company reduce costs such as marketing research, regulatory and political environmental knowledge, etc. The traveling salesman Problem (TSP) is about a sales man that had to travel to many countries and tried to minimize the total distance travelled (Azab, Key and Clark, 2017). Kuman, Mudambi, and Gray (2013) said that companies are not satisfied with an operation only in one country, they tend to expand internationally (Bilkey and Tesar, 1977; Czinkota and Ursoc, 1983; Johanson and Vahlne ,1977). Nevertheless, they cannot enter all of the markets simultaneously, hence too costly. Chang and Rosenzweig (1998) state that companies expand sequentially. This strategy is called “sprinkle” strategy. Each market entry brings a unique learning. The combinations of entries and the pattern followed in a case of being done in a different order would have brought different learnings. For example UK, then Sweden, then Italy would bring different learning than UK, then Italy, then Sweden. The way

the manager designs the sequential entry can bring cost reduction simple because an entry from X to Y can be cheaper than from Z to Y which brings the conclusion that companies will tend to enter countries that are similar either to the home market or to each other (Ellis, 2008; Davidson, 1983). Ghemawat (2001) differentiated four types of distance: Cultural/psychic; economic, political and geographical. The less distance, the less uncertainty. Therefore companies make their sequential market entry decisions based on the smallest distance in each meaning. This phenomenon is called by Mitra and Golder (2002) “near-market knowledge” (Azab, Key and Clark, 2017).

4 Factors that can influence the entry mode decision

There are different models that can influence the market entry mode decisions. The author interprets two models in this paper. Chen and Mujtaba’s model which includes: country-, market-, and firm-specific factors and Koch’s model which includes: external-, mixed-, and internal-factors.

4.1 Country-, market-, and firm-specific factors

Chen and Mujtaba’s study (2007) builds on *transaction cost model* (TCE) and *non-transaction cost model*. Transaction cost economics confirms that the market entry mode decision is based on the costs that result from a specific entry mode. The chosen market entry mode should minimize transaction costs. The non-transaction cost economics mode on the other hand developed three different approaches: *Eclectic approach*, *Bargain power theory* and *Resource-based theory* (Chen and Mujtaba, 2007).

As depicted in Table 4 according to Chen and Mujtaba (2007) there are several factors that can influence the market entry which can be divided into:

1. Country-specific factors

2. Market-specific factors and
3. Firm-specific factors.

Table 4:

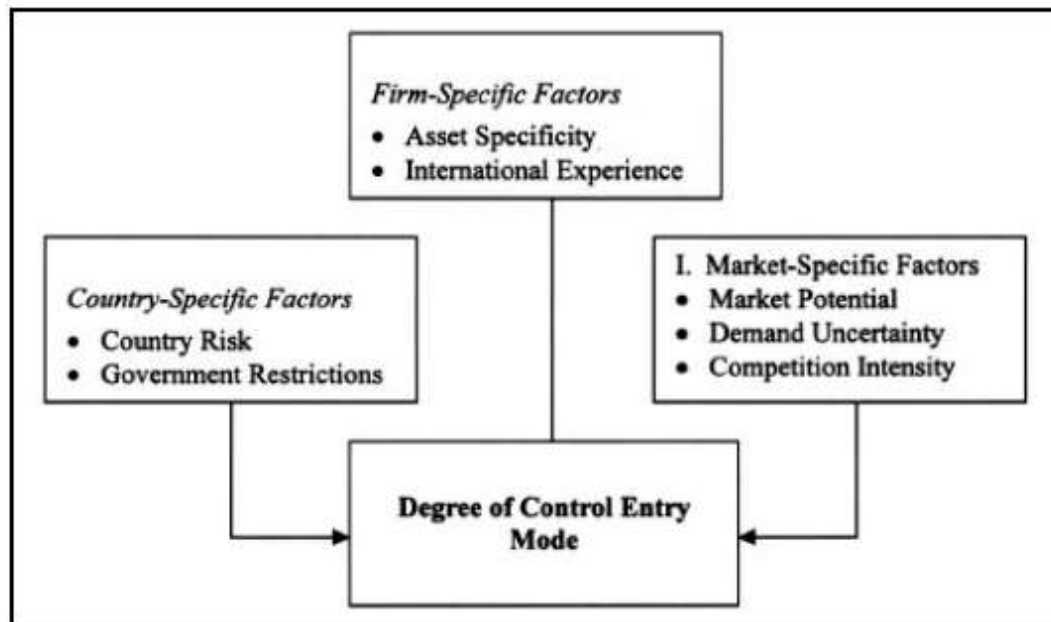


Figure 1: Factors affecting entry mode decision

Source: Chen and Mujtaba (2007)

Source: Chen and Mujtaba (2007), p. 325

4.1.1 Country-specific determinants

Chen and Mujtaba's (2007) country specific factors include economic, political, legal, institutional and cultural factors. They are divided into country risk, cultural distance and government restriction (Chen and Mujtaba, 2007).

According to Erramilli and Rao (1993) **country risk** is the possible risk of changing the operating mode based on unpredictable environmental changes that could make the originally chosen market entry mode inefficient. According to Chen and Mujtaba (2007) high country risk has a positive relation with low control modes (Chen and Mujtaba, 2007).

Government restrictions refer to the laws and regulations of the country that could influence the business of a foreign firm. Also in this theory, Chen and Mujtaba (2007) found

a negative relation between increased government restrictions and high control modes (Chen and Mujtaba, 2007).

Cultural distance is related to the costs of the regulation of economic activities. In a case of lower cultural distance, the transaction costs are low hence the cooperation of the company with customers and values are similar to those in the home country (Chen and Mujtaba, 2007).

4.1.2 Firm-specific factors

The firm-specific determinants refer to skills and assets that bring ownership advantages. They are divided into “asset specificity, international experience and firm size” (Chen and Mujtaba, 2007).

Under **asset specificity** is understood the threat to be duplicated by competitors hence opportunism. Chen and Mujtaba found a positive relation between a great asset specificity and a high-control entry mode (Chen and Mujtaba, 2007).

Companies with a local knowledge can easier avoid risks in international transactions. Chen and Mujtaba (2007) found a positive relation between a great **international experience** and a high-control entry mode (Chen and Mujtaba, 2007).

Firm size also influences the decision. The larger the company the larger the ability to expend resources and absorb risk. Larger companies have a greater bargaining power in the negotiations of control and ownership. Nevertheless, larger companies are exposed to a higher level of resource commitment and risk (Chen and Mujtaba, 2007).

4.1.3 Market-specific factors

Chen and Mujtaba (2007) divided market-specific factors into following variables: market potential, demand uncertainty, and competitive intensity (Chen and Mujtaba, 2007).

Deng (2003) has shown that the greater the **market potential** is, the more companies will invest in a market and increase the share of full ownership ventures. Under market potential, one understands the current size of the market and the inherent growth potential. The risk is higher in potential markets, especially when there is a partner leaking information. Some researchers suggest that a company should choose a full-control entry mode when entering a market with high potential to reduce the risk of shirking and to increase possibilities to reach economies of scale. Chen and Mujtaba (2007) found a positive relation between the market potential and high-control entry mode (Chen and Mujtaba, 2007).

The unpredictable future demand is defined as **demand uncertainty**. The demand uncertainty is connected to high contractual costs and shirking costs. Chen and Mujtaba confirmed a positive relationship between the demand uncertainty and high-control entry mode (Chen and Mujtaba, 2007).

According to Li and Li (2010), the attractiveness of a more flexible ownership strategy is positively correlated with demand volatility, but this depends on the industry the company is operating in. Brouther et.al (2008) showed the effects of the demand uncertainty over the market entry forms. They consider joint venture, wholly-owned subsidiaries, and exports as a mode of serving in this markets (Wooster, Blanco, Sawyer, 2015).

Under **competition intensity** will be understood the monitoring of the competitors on the target market. A high competition intensity market is less profitable, hence companies avoid engaging their resources in these markets and prefer shared ownership market entry modes. Nevertheless, Ekeledo and Sivakumar (1998) stated that in monopolistic markets the new entrants would prefer “sole ownerships” in order to become competitive against the competitors. Chen and Mujtaba’s (2007) study confirmed a negative relation between a high control entry mode in a case of a high competitive intensity (Chen and Mujtaba, 2007).

4.2 Internal and external factors

Koch (2001) also developed a model of factors that influence the market entry mode decisions. This model divides the factors into internal-, external-, and mixed-factors (Koch, 2001).

4.2.1 External factors

According to Koch there are several external factors which influence the market entry mode choice: popularity of individual market entry modes in the overseas market, market barriers, global management efficiency requirements, image support requirements, market growth, characteristics of the country business environment, and industry feasibility/viability of market entry modes (Koch, 2001).

Popularity of individual market entry modes in overseas markets refers to the preferences of one specific market entry mode in a specific country. An example of **market barriers** can be government regulations. Koch (2007) defines **global management efficiency requirements** as a company global strategy due to a high company involvement, which results with lack of resources. **Image support requirement** suppose to protect the invention of the company. A fast **market growth** rate tempt companies seeking an opportunity for a fast expansion. **Industry feasibility** refers to entry modes, which can be excluded by law. Licensing entry modes may expose to know-how dissemination risk. Also cost such as labor regulation, cost of labor, taxes in the country may discourage the companies from establishing a subsidiary (Koch, 2001).

4.2.2 Internal factors

Koch (2001) defines following factors as internal: company size/ resources, management locus of control, experience in using market entry modes, management risk attitudes, market share target, calculation methods applied, and profit target (Koch, 2001).

The experience in using market entry mode, under specific circumstances and the rate of success influences the decision of the next selection of market entry mode. Each market entry mode is believed to generate different level of profit, therefor the market entry decision will be based on the **profit target** of the company. Each manager has its own **risk attitude** which can influence the market entry mode decision. Less risk-averse management will rather choose countries with long-term prospects (Koch, 2001).

5 Telecommunications industry

The Telecommunications industry enables communication in the home country as well as on a global scale, traditionally via phone, nowadays more and more through IP-based devices. Voice and data traffic are transmitted through airwaves or cables, and wires or wirelessly (Investopedia). Everyday life is getting more and more dependent on telecom products and services. It has been making innovations at a very fast pace. The factors that contribute to the growth of this industry are advanced technology, intense market competition, innovative services, high-speed internet. These factors are accompanied by high costs (transparencymarketresearch.com).

National governments of each country have the power to set the rules by “defining the rights of property, allowing the usage of the Voice over Internet Protocol, and restricting foreign entry” (Faccio and Zingales, 2017, p.1). The government controls the telecommunication industry with the scare resources, such as cabling or the electromagnetic spectrum used by the telecommunication for the transmission of data. The licensing of the electromagnetic spectrum is a way how a government can control the degree of competition in their country, it can reduce concentration as well as prices. Additionally, spectrum auctions are a considerable source of state budget funding (Faccio and Zingales, 2017).

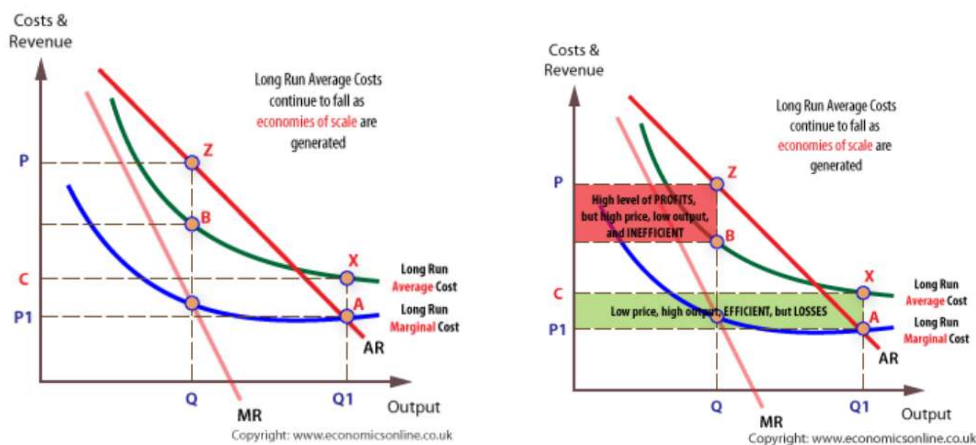
5.1 Natural monopolies

A natural monopoly describes the situation in a market when only a single company can produce the desired output at a lower cost than any other combination of two or more companies (Christodoulopoulos, 1994).

For monopolists reaching economies of scale it is crucial that the so-called minimum efficient scale can only be reached once a player has reached a specific market share.

When it comes to costs and profit of the monopolies, average total costs keep falling due to table economies of scale. Therefore, marginal cost (MC) is always below average total cost (ATC) over the entire length of potential output (economicsonline) as can be seen in graph 1. In the case of telecommunications infrastructure costs, marginal costs are below the average total cost over the whole range of possible output quantities (economicsonline).

Graph 1:



Source: Economics Online, available:

https://www.economicsonline.co.uk/Business_economics/Natural_monopolies.html, last accessed: 23.05.2020

“In order to maximize profits natural monopolies would charge an amount of Q and generate super-normal profits” (economicsonline). On the other hand, to achieve allocation efficiency,

the regulator will have to impose an excessive price-cap (at P_1). As a consequence the output which has to be allocatively efficient, at Q_1 , is so high that the natural monopolist would be forced to encounter losses, considering that average total costs are above Q_1 . Allocation efficiency can be reached when price equals marginal costs, but at this price the natural monopolist would generate losses. These losses can be dealt with in different ways, such as, compensating them with government subsidies, or through price discrimination, where the market will be split into two or more sub-groups (economicsonline.co.uk).

5.2 Regulation policies concerning natural monopolies

In the last decades, the new technological progress, due to the cost reduction, and globalization of markets have changed traditional regulations of natural monopolies. Developing new technologies, such as wireless telephones, optic-fabric cables, long-distance telephone networks, reduces costs and economies of scale and at the same time allows more competition for natural monopolies. Considering globalization, according to Yarrow (1994) natural monopolies can be regulated by technology/costs and demand meaning that they can disappear as demand grows even though the production conditions do not change (Kim and Horn, 1999). The regulator is the one responsible for regulating monopolistic markets. Before the technological development, the regulator was focused on problems overpricing, nowadays it focuses on replacing regulation with the competition, design of regulatory policies (Kim and Horn, 1999).

Brauetigam (1989) suggested that natural monopolies do not need to be regulated hence the alternative ways to make a competition. The following theories exist:

1. Competition for the market: One solution would be creating competition between companies supplying them over a finite time also called franchise solution or Demsetz-competition. Demsetz competition is the contract between the franchiser, such as the government, and a franchisee. Monopoly franchises could be auctioned to

the bidder with the most attractive offer, such as the lowest prices. In a case of being impossible to introduce competition in the market, it should be offered for the market through auctions and tenders (Kim and Horn, 1999).

2. Contestable markets: The main idea of this theory is the “threat of entry into an industry and potential competition may give an incumbent monopolist effective incentives to behave as if there were a competitive market. The key aspect of a contestable market and the key to guaranteeing competitive outcomes is, therefore, the existence of conditions enabling entry” (Kim and Horn, 1999, p. 5). If the entry barriers are lower and new entrance do not have additional sunk costs then every competition will benefit no matter the market share. The degree of contestability can then be measured by the share of investment which consists of the sunk capital (Kim and Horn, 1999).
3. Intermodal competition: A great example is the transport industry. There are many different ways of transport, such as railroads or road transport. When intermodal competition is strong, intermodal competition is a good deregulator even though there is a natural monopoly in some of the transport modes. The TV industry has been deregulated by “over-the-air broadcasting, the telecommunications industry with competition by across market segments such as the mobile and land-based communications” (Kim and Horn, 1999, p. 5).

Yardstick competition: Yardstick competition refers to the creation of entities and measuring their performance. For e.g. A natural monopoly would be separated into many entities supplying different regions. In order to compare the achievement of the monopolist in other regions of the country yardstick can be used (Kim and Horn, 1999).

5.3 The impact of the globalization on the national telecommunications policy

Since the 1980s, globalization of corporate activities has reached the telecommunications industry too. Before, the (national) public telecommunications operator (PTO) used to enjoy a monopoly in the telecommunications market. PTOs had their services restricted to the domestic market. International telecommunication existed but the PTOs' played a different role. International telephony services were an extension of the domestic services. The role of PTOs' international services made the connection of domestic networks to different countries possible. The International Telecommunication Union (ITU) served as a forum so that PTOs could formulate commonly needed technological standards and other operational rules. In this system, PTOs represented the interests of their country, hence, competition between the PTOs was very limited. Thanks to globalization, PTOs extended their geographical coverage and offered services to customers outside the operator's home country. As a result, competition grew (OECD, 1995).

5.4 Role of foreign direct investment in telecommunications industries

Foreign direct investment has increased rapidly covering a spectrum of industries around the world. The money gained by foreign direct investment trigger economic growth, technology transfer, job creation, and improves the living standards around the globe. Foreign direct investments are assumed to increase exports, as a large part of export consists of sending cargo from domestic companies to their foreign company. Even though foreign investments have diverse bright sides, some developing countries fear to open their markets without restricting it in any way, so they do not lose control of strategic industries (Lin, 2008).

The telecommunications industry is one of the most strategically acting industry. Foreign investment in telecommunication would bring advanced technological skill, market competition, telecommunication progress on a national level. However, on the other side, telecommunication plays such an important role in national security, social stability and

economic development, that countries fear opening the market, hence telecommunication industries are state-operated and monopolized in numerous countries. As a result of the monopoly, the balance established between the economic gains from the FDI and national telecommunication sovereignty is a challenging task (Lin, 2008).

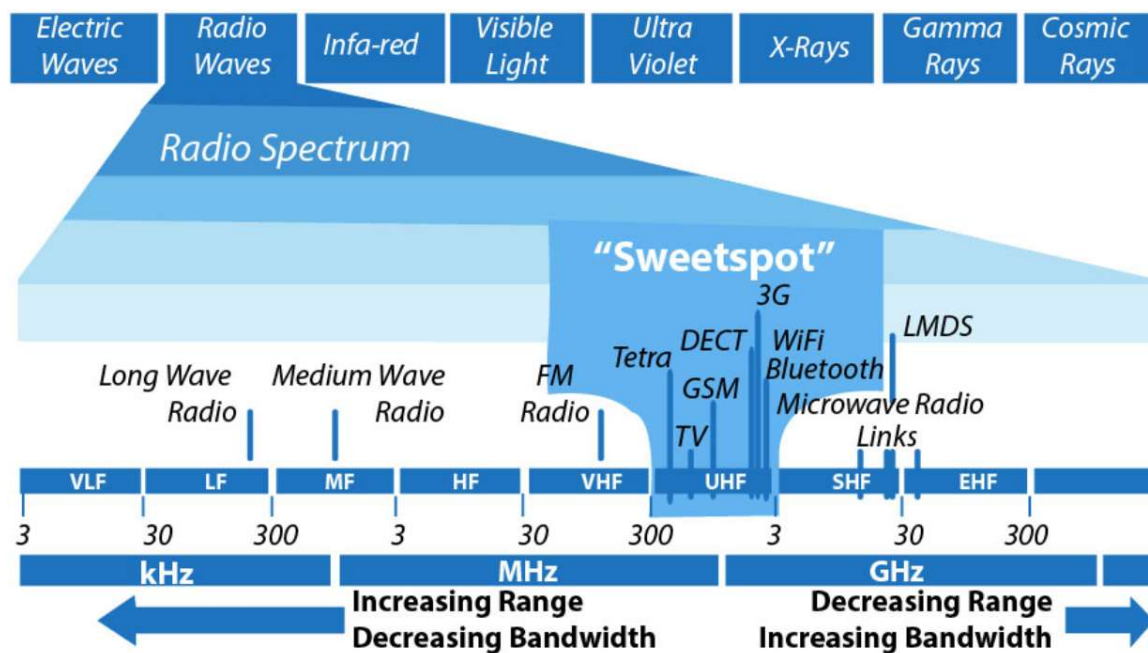
Foreign direct investment in the telecommunications industry refer to the establishment of a company in a foreign country, or purchase an existing telephone company, as well as building up joint ventures with a local partner and offering telecommunication services together. After the liberalization of many markets and the privatization of their national PTOs, investments in telecommunications services increased rapidly. Attracting FDI in the telecommunications industry requires labor with advanced technological knowledge and privatized telecommunication (Lin, 2008).

5.5 Spectrum auctions

Spectrum auctions are a useful way of the government to allocate scarce resources, as is available radio frequency spectrum that can be used for transmission of telecommunication services (Cramton, 2001).

In the table below the entire spectrum of electromagnetic waves from very low (current) to very high is shown. Only a very small part of this is useful for communication, between 300 and 3000 MHz. This means that many applicants are fighting over the few available frequencies in this area. Hence this lack a large part is regulated by the state and auctioned. This is expected to be allocated according to the greatest benefit (willingness to pay).

Figure 2:



Source: Nuzeal corporation; available: <https://nuzeal.com/index.php/radio-spectrum-availability/>; last accessed: 17.12.2020

Even though having some disadvantages, they have proved successful in assigning the available frequency spectrum to the applicant that can best utilize it. Initially, the simultaneous ascending auction was used and showed to be efficient in the US and other countries. Lately, the package bidding design became more popular (Cramton, 2001).

Spectrum auctions had been a topic of relevance since 1959 (Coase), nevertheless, they were not introduced before 1994. Alternative to spectrum auctions, administrative processes or lotteries were used. Administrative processes worked in a way that interested applicants sent a proposal to public administration explaining their intention on how to use the potentially licensed frequency spectrum. Based on this input, public officials decided on which proposal was most attractive and that is why they were also called “beauty contests”. The problem of the beauty contests was that they used to be slow and inefficient, additionally they lacked transparency, and competitors heavily engaged in lobbying to influence decisions. The process lasted even up to two years, and applicants wasted large amounts of money trying to win the battle. With the lotteries on the other side, the winners were randomly selected. The

number of applicants often was enormous, and the determined winner was not always the most suitable one (Cramton, 2001).

With the introduction of spectrum auctions all of these problems were eliminated. The companies most capable of using the frequencies, companies with the highest value won the licenses. Another advantage of the spectrum auctions is that the competition is beneficial for maximization of tax revenues, as competitors would bid each other up to the maximum amount for which a frequency band can be profitably used by an operator (Cramton, 2001).

5.5.1 Frequency auction design

As already outlined in chapter 5.5, frequency auctions have two goals: assigning the spectrum to the one that is mostly able to use it and maximizing the revenue. Therefore, the government should choose the right design that brings these advantages. Every design has its disadvantages too. There are following auction designs:

1. Open bidding or single sealed bid
2. simultaneous open bidding or sequential auction
3. package bidding (Cramton, 2001, pp. 4-5).

5.5.1.1 Open bidding or single sealed bid

The advantages of the open bidding are that the bidding process gives away the information about the valuations, which brings an efficient assignment of the licenses, hence bidders can adjust their bids based on this information. This process raises the auction revenues. Another advantage of open bidding is that the bidder can respond fast to the bid of the other.

With the sealed-bid design there are fewer possibilities for collusion (Milgrom, 1987) whereas in open bidding tacit agreement, signaling and punishment are common. Unlike in the “sealed bid” design, where a bidder must bid very high in order to win as he does not know how much the others have bided, in open bidding the bidder should just bid better than

the second-highest bid (Cramton, 2001).

5.5.1.2 Simultaneous open bidding or sequential auction

On the simultaneous open bidding or sequential auction design, the focus is on the question if licenses should be awarded sequentially or simultaneously. The disadvantage of this bidding is the limited information available to bidders and the way the bidder can respond to the information. In the case of a sequential auction, the bidder has to guess which price will be in the future auction when submitting a bid in the current auction. An incorrect guess may bring an inefficient assignment of the licenses. This kind of auction eliminates strategies such as, “A bidder cannot switch back to an earlier license if prices go too high in a later auction” (Cramton, 2001, p.6), and the bidder can regret the purchase at a high price or not having purchased at a low price (Cramton, 2001).

In the case of a simultaneous auction, the bidders are up to date with the prices of the license and can switch between licenses based on that. With a simultaneous auction, the bidders will not regret the purchase as the prices are market prices (Cramton, 2001).

Sequential auctions are very flexible. Bidders can rapidly respond to competitors' bids and collusions are almost impossible. Bidders that would win a license at a lower price but in the future is less competitive than the bidder that won it now at a lower price. The winner from the present has no reasons to withhold in that later auction (Cramton, 2001).

5.5.1.3 Package bids

The value of the license also depends on the frequency package the bidder wins. For example, a Philadelphia license can have a higher value if it can be combined with the adjoining licenses in New York and Washington, thus, bidders will rather try to bid on combinations of licenses than individual bids. Supposing the bidder has to run for each asset

separately it can happen that he does not win all of the desired pieces of the combination or he will have to bid more for those pieces (Cramton, 2001).

Yet, package bids have their disadvantages. This kind of bid can bring the bidders to a grand aggregation caused by the free-rider problem (agents willing to receive benefits without covering the costs (Anderson, Gatignon, 1986)), named by Bykowsky et al. and Milgrom (2000) “threshold problem” (Cramton, 2001, p. 8) and the second problem is complexity. For someone to make all of the combinations it would require intractable programming. The programming can be made tractable by limiting the combinations, which then would lead to limiting the desirable combinations of the bidders (Cramton, 2001).

6 Methodology

The methodology used for the field research is a qualitative approach. The qualitative approach will be used to find detailed insight into the motivation of either individuals or groups (Chen, 2005). The method will be used to confirm or deny the research questions. It requires not only ‘yes-no-maybe’ answers but the interviewees are encouraged to elaborate and give detailed answers. The primary information of this thesis is gathered by in-depth-interviews with Pavlina Filippi (Project Manager responsible for the go2market to North Macedonia), Andreas Berlinger (M&A expert in Telekom Austria), Nikola Ljushev (ex-CEO and CTO of Vip), Robert Krendl (ex-CFO), Julijana Woschnagg (ex-Layer of Vip). The supplementary information is gathered through websites, magazines.

6.1 Data collection

For the data collection were used secondary and primary data collection. Secondary data collection was used for the literature review and a better understanding of the specifics of the market and the industry’s market entry. Telekom Austria’s website was used to collect the

data of the company, and other websites to collect the data needed to capture the information that was connected with the market entry. Primary Data was collected by interviewing the managers of different departments mentioned in chapter 6.

6.2 Interview method

The interview method started with calling the managers and getting a general overview of the situation in order to develop possible questions and divide them properly according to the need to interview questions. A list of people and organizations were contacted to check their cooperation readiness. Four managers from Austria gave a positive answer and only one from North Macedonia. The contacted people such as important journalists and the person responsible for the auction being included in the case intensively in 2006 in North Macedonia did not want to cooperate. This data collection took part between August and October. These interviews were made in Austria and North Macedonia with all of the managers face-to-face except the interview with Julijana Woschnagg which was made via phone. The interview lasted from half to one hour and they were transcribed.

7 Empirical Analysis - Case study

7.1 Central Eastern Europe

In literature North Macedonia is either considered part of SEE region or CEE region. In this thesis, the author will treat North Macedonia as part of CEE region, which can be defined “as the formerly communist states between Germany, Austria and Italy in the west and the pre-1939 Soviet Union in the east”, as e.g. used by KPMG (2011, p. 8).

Figure 3:



Source: KPMG 2011, p.8

Consequently, the author understands the following countries as part of Central Eastern:

Albania	Croatia	Poland
Armenia	Check Republic	Romania
Azerbaijan	Georgia	Russia
Belarus	Hungary	Serbia
Bosnia and Herzegovina	Moldova	Slovakia
Bulgaria	North Macedonia	Ukraine

The region covers several language groups: Slavic Languages (e.g. Macedonian, Bulgarian), Indo-European, Finno-Ugric languages family etc.. The number of people speaking English is

increasing constantly, German and Russian are also spoken in some of the countries (KPMG, 2011).

The workforce is considered to be highly educated (UNESCO Institute for Statistics) and the labor costs competitive versus western Europa. For example, Estonia and North Macedonia in 2010 - 2011 were on top of the list for flexible wage determination (table 5).

Table 5:

Flexibility of wage determination			Tertiary education enrollment rate		
Example countries	Score	Global rank	Example countries	Score	Global rank
Estonia	6.0	5	Slovenia	86.7	4
Macedonia	6.0	6	Lithuania	77.3	11
Lithuania	5.9	9	Latvia	69.2	18
Latvia	5.7	21	Poland	66.9	2
Hungary	5.5	39	Romania	65.6	22
Bosna & Herzegovina	5.4	40	Hungary	65.0	23

Source: KPMG (2011), p.10

Central Eastern Europe has undertaken tremendous changes over the last couple of decades. Most of the countries that joined the European Union after 2004 (Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, Slovenia) or 2007 (Bulgaria and Romania) have seen strong growth since their adhesion. Similar observations can be made with countries in negotiations (KPMG, 2011).

Over the past decades, CEE countries made high progress towards the western countries. Liberalization, mass-privatization, foreign inflows, as well as capitalism formed more competitive economies. The shift from agriculture to services and commerce is evident.

However, the CEE countries' development slowed down after the financial crises, as it affected the economies with a higher level of debts (KPMG, 2011).

7.2 The fall of Yugoslavia

Yugoslavia formed after the Balkan Wars and the collapse of the Ottoman and Austro-Hungarian empires in 1918. However Yugoslavia was always a country with cultural boundaries, such as the eastern and western Roman empire, Muslims and Christians separations as well as different economic, political, religious, and economic interest which resulted in the fall of Yugoslavia (Zizmond 1992). Yugoslavia disintegrated into five independent countries in 1991: Bosnia and Herzegovina, Croatia, North Macedonia, Slovenia, and the Federal Republic of Yugoslavia, consisting of Serbia and Montenegro, which also fall apart in June 2006 (Uvalic, 2018)

Figure 4:



Source: Mapcruzin, available: https://mapcruzin.com/free-maps-macedonia/former_yugoslavia.jpg (2013), last accessed: 15.04.2020

A large integrated market falls apart into seven small countries out of which some developed very fast, others were expected to follow, according to Andreas Berlinger (interviewee). In the following table one can see the development of the profit of each of the countries in which Telekom Austria is present:

Table 6:

(MEUR)	Austria	Bulgaria	Croatia	Other	Elimination	Consolidation
01.01.-31.12.2006						
Foreign revenues	3.243	570	390	555		4.760
Segment assets	6.673	1.829	476	315	(1.733)	7.560
Long-term assets	3.595	1.089	283	103		5.071
Additional assets	803	100	65	29		997
01.01.-31.12.2005						
Foreign revenues	3.255	259	367	484		4.365
Segment assets	6.975	1.829	498	311	(1.916)	7.697
Long-term assets	3.713	1.135	296	102		5.247
Additional assets	488	53	71	15		628

Source: Newsletter A1 (2007), p. 147

7.3 North Macedonia – Country profile

In 1991 North Macedonia obtained independence from the Federal Republic of Yugoslavia. Since then North Macedonia has been facing diverse challenges on the domestic as well as on the international front. There were two ongoing conflicts that continuously endangered foreign direct investments into and economic growth of the country: Tensions with the Albanian minority and an issue on the country's name with neighboring Greece (Encyclopedia Britannica).

North Macedonian borders with Kosovo, Bulgaria, Greece, Serbia, and Albania (see figure below).

Figure 5:



Source: Encyclopedia Britannica, available: <https://www.britannica.com/place/North-Macedonia> , last accessed: 19.02.2021

The capital city and largest city in the country is Skopje. The country counts officially 2.06 million inhabitants. There are different kinds of residents in the country, mostly Macedonians, but also Turks, Serbs, Romani, Bosnians, and Aromanians (25%). The country became a member of the United Nations in 1993. Since 2005, North Macedonia has been a candidate for joining the European Union, but it had to settle the naming issue with Greece first. More details in chapter 7.3.1. North Macedonia has been in the group of developing countries, ranking 82nd on the Human Development Index (mfa.gov.mk/).

7.3.1 The Macedonian-Greek conflict

North Macedonia's biggest barrier for entering the European Union and economic development was the blockade of Greece. The economic blockade in 1994, had large consequences for North Macedonia. A step forward was made in 1995 when North Macedonia and Greece signed a contract, Interim Accord, to come to a settlement. The agreement consisted of North Macedonia removing the Vergina Sun, which was a symbol of the ancient Macedonian royal family that was Greece's national symbol, from its flag, and the name issue was discussed. Greece did not follow the agreement for a long time and finally broke it in 2008 by blocking North Macedonia to become a member of NATO (Encyclopedia Britannica).

Finally, in 2018, the Prime Minister of North Macedonia, Zoran Zaev (SDSM), and the Greek Prime Minister, Alexis Tsipras, reached an agreement about the name, which was to become "North Macedonia". The change of the name was connected with a necessary amendment of North Macedonia's constitution and the approval by the Greek parliament. SDSM held a referendum, which was boycotted by North Macedonia's other major political party, VMRO-DPMNE, that called the Macedonians to boycott it. Voter participation reached only 63%, but 90 percent of those that did vote approved the agreement. By reaching the necessary two-third threshold, the government began the preparations of the amendment, which were then approved on 3 December and on 11 January 2019 the amendment won 81 members of parliament which were just enough to pass. The final step was the approval from the Greek parliament, which, too, was heavily challenged but could finally be achieved as well. As a consequence, Macedonia officially became North Macedonia on 12 February 2019 (Encyclopedia Britannica). On 6 February 2019 a protocol on the accession of North Macedonia to NATO was signed. The protocol entered into force on 19 March 2020, making North Macedonia a member state of NATO on 27 March 2020 (https://www.nato.int/cps/en/natohq/news_163078.htm). This however did not mean an automatic entry to EU because North Macedonia, on one hand, has to fulfill several criteria,

on the other hand, it was blocked from France, supported by Denmark and Netherlands, and from Bulgaria announcing the Macedonian language as Bulgarian (Encyclopedia Britannica).

7.3.2 The Macedonian-Albanian conflict

Up until 2001, North Macedonia was considered to be an example country for good inter-ethnic relationships. Ethnic Albanians living in the country had cultural and educational rights as well as representors in the government, the police, and the army. Albanians nevertheless felt like they were treated as second-class citizens despite representing between 22,9% of the population (recorded June 1994). The new population census was scheduled for 2001, which afterward was cancel due to the Albanian-Macedonian conflict and since then has not taken place. The military conflict in 2001 in western North Macedonia changed the relationship between the Ethnic Macedonian and the Ethnic Albanian population. In early 2001 the National Liberation Army (NLA), which were the ethnic Albanian rebels, attacked police forces. The government claimed that this army wanted to divide North Macedonia and create a pan-Albanian state. The unrest started in Tanusevci in western North Macedonia close to Kosovo and afterward spread to Tetovo (30 km from the capital Skopje), then to Kumanovo and Aracinovo (outskirts of Skopje). The army of the Republic of Albania threatened to interfere in the conflict through possible attacks of Skopje airport, government buildings, as well as police stations. The estimation of casualties elevated to around sixty ethnic Albanians and ten ethnic Macedonians. Before escalation, the conflict could be settled with the Ohrid Framework Agreement on 13 August 2001. The agreement stated standstill of hostilities, demilitarization of Albanian armed groups, government devolution, and reformation of minority political and cultural rights (CRS Report for Congress, 2002).

7.3.3 Political system

Since 1991 North Macedonia has been a republic. Its first multiparty elections were held in 1991 after becoming independent. The national legislative body consists of 123 members elected by popular vote. The President, currently MR Gjorge Ivanov, is the Head of State as

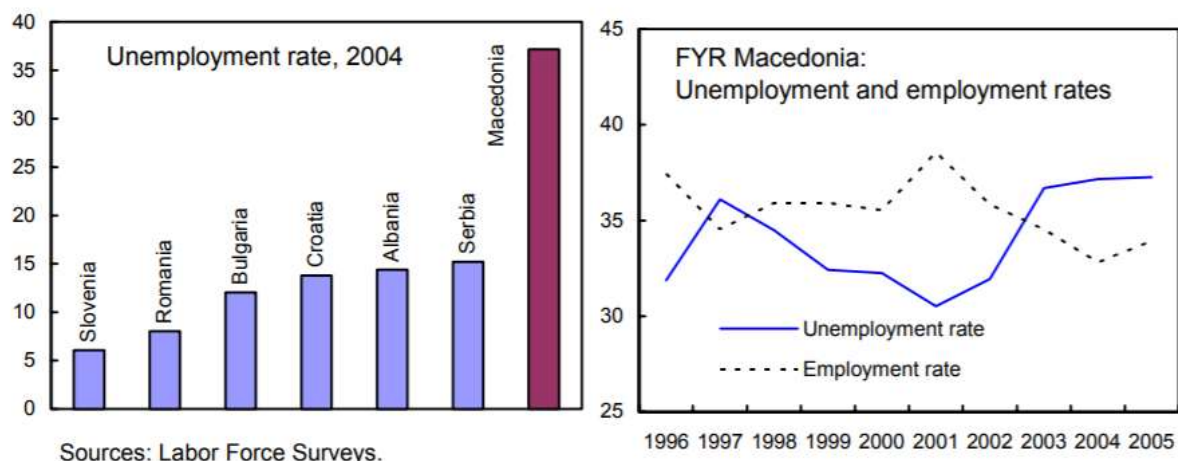
well as Commander-in-Chief of the army. He serves a five-year term. North Macedonia has 84 municipalities elected every four years (KPMG, 2017).

The most important fact for this thesis is the political situation of North Macedonia in 2006, when Telekom Austria decided to enter the market. Parliamentary elections were held on 5 July 2006 and they were won by VMRO-DPMNE (Internal Macedonian Revolutionary Organization – Democratic Party for Macedonian National Unity), which is one of the two major parties (the other one is SDSM – Social Democratic Union of Macedonia, additionally there are Albanian parties). As North Macedonia applied for entering European Union and NATO, these organizations sent 6.000 observers to monitor these elections. The elections were nevertheless marked as serious cross-political confrontations, followed by violence. Right after the elections, on 22 June 2006, there were incidents between the two major parties in the city center of Skopje, which were stopped by the warning of the European Union that such behavior endangers their entry to the military alliance (Nohlen and Stöver, 2010; BBC News, 2006).

7.3.4 Economic data

North Macedonia is one of the poorest country of all of the countries of former Yugoslav republics, nonetheless, it made significant progress expanding its economy over the last couple of years. Also on a European scale, North Macedonia is one of the countries with the lowest income and highest unemployment (37 percent in 2007) (imf.org). Unemployment is mostly spread among the young, rural population, ethnic minorities and less educated people, as it can be seen in graphic 2 (imf.org).

Graphic 2:



Source: International Monetary Fund, available: <https://www.imf.org/external/pubs/ft/scr/2006/cr06345.pdf> (2006), p. 40, last accessed: 17.12.2020

In table 16 more numbers explain the situation over the unemployment in Macedonia.

Table 7:

Labor market	Unit	2005	2010
Working population	1.000	887	946
% of women of the working population	%	39,2	38,7
Labor force participation rate	% of total, 15+	53,9	55,6
Rate of unemployment	% of total, 15-64	37,3	32,0

Source: Wirtschaftskammer, available: [lp-nordmazedonien.pdf \(wko.at\)](http://nordmazedonien.pdf.wko.at) (2021), p. 4, last accessed: 15.12.2020

The main goal of the government, when it comes to employment, was the integrations in the official job market of, first of all, the youth population as well as women and people of the informal sector (UNITED Nations, Investment Policy Review of the former Yugoslav

Republic of Macedonia, 2016). That is why it invested a lot of effort into the education of a great number of students at the same time offering job-related trainings for adults (UNITED Nations, 2016). The following table gives information of the success of the government's effort.

Table 8:

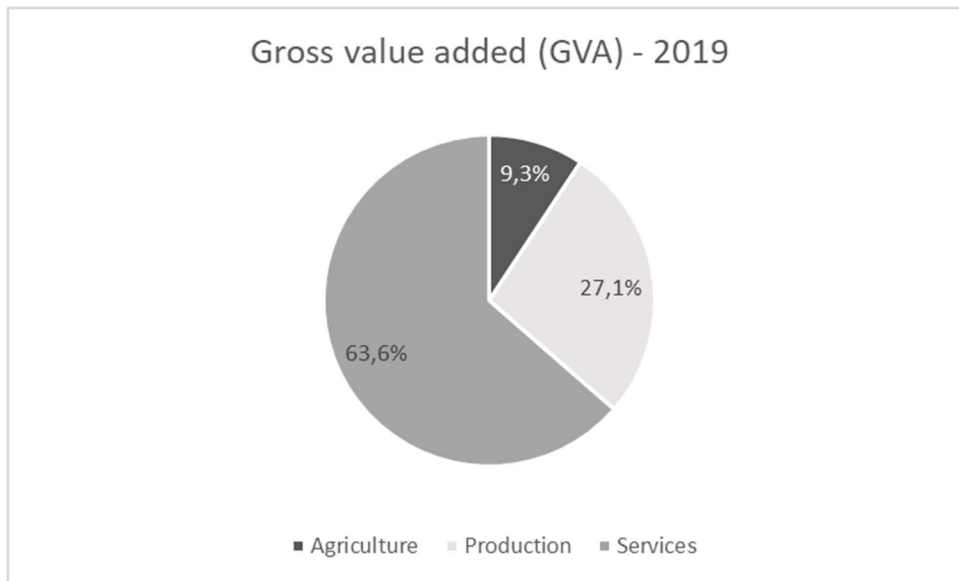
Education	Unit	2005	2010	2017
Public education expenditure	% to GDP	-	-	-
Students per Teacher	Number	19,4	15,9	14,9
Rate of School attendance (primary school)	% age group	87,7	85,4	94,9
Graduation	% age group	93,2	-	91,1

Source: Wirtschaftskammer, available: [lp-nordmazedonien.pdf \(wko.at\)](https://www.wko.at/de/nordmazedonien) (2021), p. 2, last accessed: 15.12.2020

The account deficit averaged 6.3 percent of the GDP from 1995-2004. From 2000-2004 exports increased by 4 percent and imports by 10 percent of GDP. The current account deficit fell by 1.3 percent of GDP in 2005 (imf.org).

The structure of North Macedonian present-day economy is characterized by a large services sector, middle-sized manufacturing sector and a small agriculture sector (UNITED Nations, 2016).

Graphic 3:

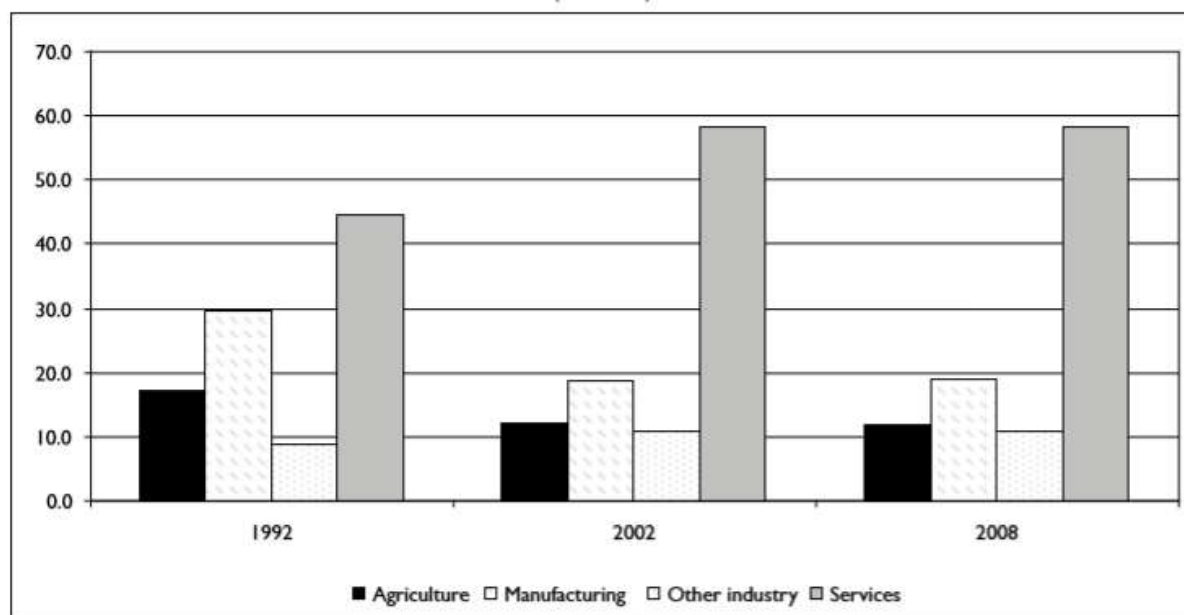


Source: Wirtschaftskammer, available: [lp-nordmazedonien.pdf \(wko.at\)](https://www.wko.at/de/nordmazedonien.pdf) (2021), p. 4, last accessed: 15.12.2020

The industry sector made up for 40 percent of total GDP in 1992 and declined afterward to 30 percent in 2008. The manufacturing sector consists mostly of iron, steel, textiles, construction, and metals and minerals. Unlike the industrial sector, the services sector grew from 44 percent of the GDP in 1992 to 58 percent in 2008 (UNITED Nations, 2016).

Graphik 4:

**Figure I.3. Structure of the economy of the former Yugoslav Republic of Macedonia,
1992, 2002 and 2008**
(Per cent)



Source: United Nations Globstat.

Note: Other industries include mining and quarrying, electricity, construction, gas and water supply.

Source: United Nations Globstat, available: [Investment Policy Review of the former Yugoslav Republic of Macedonia \(unctad.org\)](#) (2012), p. 7, last accessed: 17.12.2020

In addition follow tables with important KPIs of the economy, health system and population and migration of Macedonia.

Table 9:

Economy and Finance	Unit	2005	2010
Changes in GDP	% to LY	4,7	3,4
GDP	<u>Mrd.USD</u>	6,3	9,4
GDP per resident, current prices	USD	3.072	4.576
GDP per resident, purchasing power	USD	7.760	11.282
Budget balance	% GDP	0,2	-2,4
Total receipts of the State	% GDP	32,7	30,1
Total expenditure of the State	% GDP	32,5	32,5
Taxes	% GDP	18,2	-
Inflation rate (changes in price index)	% to LY	0,5	1,5
Purchasing power	MKD per USD	17,90	18,99
Interest on loan capital	%	12,5	10,7
Public debt	% to GDP	36,7	24,3
External debt	<u>Mrd. USD</u>	3,0	5,2

Source: Wirtschaftskammer, available: [lp-nordmazedonien.pdf \(wko.at\)](http://lp-nordmazedonien.pdf(wko.at)) (2021), p. 1, last accessed: 15.12.2020

Table 10:

Health	Unit	2005	2010
Public health expenditure	% to GDP	7,7	6,7
Health expenditure per resident	USD per resident	233,1	305,2
Baby mortality	Per 1.000 birth	12,2	8,9

Source: Wirtschaftskammer, available: [lp-nordmazedonien.pdf \(wko.at\)](http://lp-nordmazedonien.pdf(wko.at)) (2021), p. 2, last accessed: 15.12.2020

Table 11:

Population and migration	Unit	2005	2010
Population	1.000	2.037	2.057
Density of population	Resident per km ²	80,9	81,8
Population under 15 years	% to total	20,2	17,9
Population between 15-64	% to total	68,8	70,5
Population 65+	% to total	11,0	11,6

Source: Wirtschaftskammer, available: [lp-nordmazedonien.pdf \(wko.at\)](http://lp-nordmazedonien.pdf(wko.at)) (2021), p. 3, last accessed: 15.12.2020

Table 12:

Living Condition	Unit	2005	2010
Gross national income	USD per resident	2.990	4.700
Human development Index	Index	0,710	0,743
Access to clean water	% of total population	99,3	95,5
Access to sanitary facilities	% of total population	86,4	93,1

Source: Wirtschaftskammer, available: [lp-nordmazedonien.pdf \(wko.at\)](http://lp-nordmazedonien.pdf(wko.at)) (2021), p. 4, last accessed: 15.12.2020

North Macedonia became a member of the World Trade Organisation in 2003. Due to the cooperation with the European Union, North Macedonia also signed a contract of Stabilization and Association in 2001 and has a duty-free policy for the European markets. Since 2006, North Macedonia also has been a member of the Central European Free Trade Agreement (“(CEFTA) 2006 agreement replaced all the bilateral agreements which until then had been in force between the signatory countries - Albania, Bosnia and Herzegovina, Montenegro, Croatia, North Macedonia, Moldova, Serbia and UNMIK / Kosovo. The Agreement contains provisions relating to trade in industrial and agricultural products, technical barriers to trade, rules of origin and customs cooperation and the new trade issues such as strengthening cooperation in trade in services, investment, public procurement and intellectual property rights” OECD portal). Main export goods are leather products, reaction initiators and accelerators, centrifuges and insulated electric conductors. It mainly imports ceramic wares, petroleum oil and chiefly platinum (Comtrade, Nordeatrade Portal; oec.world). The main export destinations in 2009 were Germany with 18,2 percent, followed by Serbia with 16,2 percent, Greece 11,8 percent, and Italy 8,51 percent. The main import partners in 2009 were:, Germany with 12,2 percent, Greece 10,7 percent, Serbia 9,36 percent,

and Italy 6,83 percent (oec.world). In addition an overview over the numbers of exports and imports for the relevant years in table 13.

Table 13:

Foreign trades	Unit	2005	2010
Import of goods	Mrd. USD	3,1	5,4
Export of goods	Mrd. USD	1,7	3,0
Imports of Austria	Mrd. USD	69	94
Imports of EUR	Mrd. USD	1.798	2.727
Exports to Austria	Mrd. USD	9	37
Exports to EU	Mrd. USD	1.202	2.090
Import of Services	Mrd. USD	545	816
Export of services	Mrd. USD	687	989

Source: Wirtschaftskammer, available: [lp-nordmazedonien.pdf \(wko.at\)](http://lp-nordmazedonien.pdf(wko.at)) (2021), p. 6, last accessed: 15.12.2020

Back then, in 2008, the telecommunications infrastructure consisted of monopoly in fixed-line services by Makedonski Telekom. Makedonski Telekom was partially privatized in 2000 (more details over Makedonski Telekom are presented in chapter 7.4.1). The mobile telephone, on the other hand, was oligopolistic, dominated by three operators: Makedonski Telekom, Germany (market share: 60 percent in 2009), Mobilkom Austria (12 percent), and Telekom Slovenije (23 percent) (UNITED Nations, 2016).

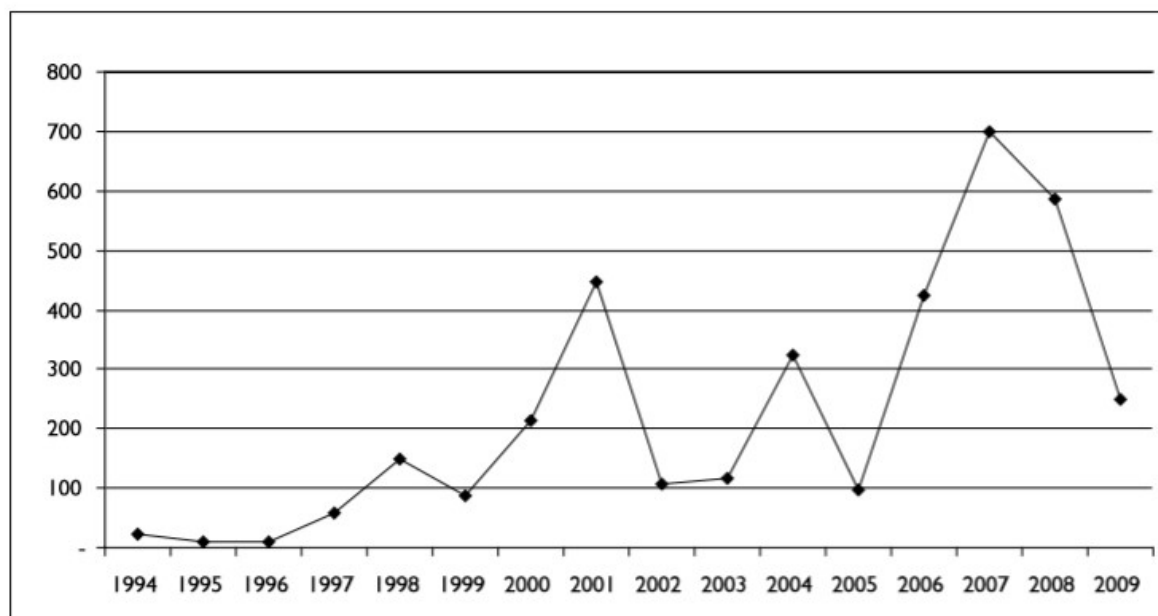
7.3.5 Foreign direct investments in North Macedonia

Foreign direct investments are very important for the economic development and economic governance of North Macedonia. They are important in sense of inflow of foreign capital and as a “discursive construct in the policy and political debates” (Vangeli, 2019, p. 1). The

government of North Macedonia promoted the FDI in order to ease the economic crisis that arose after the fall of Yugoslavia and the disconnection of the country's large parts of its former market. Foreign Direct investments were allowed in any form but mostly desired in form of Greenfield investments, as these would help settle new production capacities in companies with leading technology and in a form of Brownfields, which would help the revitalization of the troubled companies (Vangeli, 2019). The promotion of FDI was also a key political focus of VMRO-DPMNE in the 1990s because they knew that the FDI inflows are the way of reaching its goals in the field of economic development. The importance of the FDIs was underlined with the financial and economic crisis in 2007 (United Nations, 2012). The first FDIs came to the country in a form of privatization of the three largest state owned companies, the oil refinery, the telecommunications operator, and state producer of electricity. Okta, the oil refinery was privatized in 1999, the telecommunications company, a subsidiary of Deutsche Telekom from Germany in 2001 (34,81% still belong to the government (see chapter 7.4), and last but not least, EVN – former “Power plants of Macedonia”, an Austrian electric power distribution privatized in 2006 (90% privatization, evn.at) (Vangeli, 2019).

Graphic 4:

Figure I.5. FDI inflows to the former Yugoslav Republic Macedonia, 1994–2009
(Millions of dollars)



Source: UNCTAD, FDI/TNC database.

Source: United Nations conference on trade and development, available: [Investment Policy Review of the former Yugoslav Republic of Macedonia \(unctad.org\)](http://unctad.org) (2012), p. 11, last accessed: 17.12.2020

Compared to the other countries, North Macedonia has attracted considerable levels of FDI considering the size and level of development of its economy (UNITED Nations, 2016). In the following table are presented the main investors, their home country and the amount of investment.

Table 14:

Top foreign investment projects in the former Yugoslav Republic of Macedonia, 2001 - 2008

Investor	Home country	Target company	Amount of investment (\$ million)
Magyar Telekom (Deutsche Telekom)	Hungary (Germany)	Makedonski Telekom	346,5
EVN	Austria	ESM Distribution	270,2
National Bank	Greece	Stopanska Banka	46,4
Balkanbrew Holding	Greece	Skopje Brewery	34,0
Hellenic Petroleum	Greece	OKTA refinery	32,0
Société Générale	France	Ohridska Banka	30,4
Titan, Holderbank	Greece/Switzerland	Usje Cement Factory	30,0
Balkan Steel	Liechtenstein	Ladna Valalnica	21,0
QBE Insurance	United Kingdom	ADOR Makedonija	14,8
Duferco	Switzerland	Makstil	11,5
East West Trade	Austria	Centro	11,0
Milestone	Iceland	KIB Kumanovo	6,4
KuppBall Transhandel	Germany	FZC Kumanovo	3,4
SCMM	France	Feni Kavadarci	2,3

Source: United Nations conference on trade and development, available: [Investment Policy Review of the former Yugoslav Republic of Macedonia \(unctad.org\)](#) (2012), p. 12, last accessed: 17.12.2020

The largest component of FDI inflows was equity capital making more than 60 percent of the flows from 1996 - June 2010 (UNITED Nations, 2016).

Table 15:

FDI inflows by component and income on inward FDI in the former Yugoslav Republic of Macedonia, 1996 – June 2010 (\$ million)						
Year	Equity capital	Reinvested earnings	Other capital (intra-company loans)	Total FDI inflows	Income on inward FDI	Profit repatriation
	1	2	3	4=1+2+3	5	6=5-2
1996	6.8	-	4.4	11.2	-	-
1997	39.8	-1.7	19.9	58.1	0.3	2
1998	130	7.7	12.8	150.5	9.2	1.5
1999	38	24.9	25.5	88.4	31.4	6.4
2000	182.2	23.7	9.1	215.1	31.3	7.6
2001	447.5	-14.1	13.8	447.1	-0.8	13.3
2002	78.9	14.9	11.7	105.6	39.5	24.5
2003	97.7	30	-9.9	117.8	64.3	34.4
2004	152.9	0.9	169.2	323	67.5	66.5
2005	98.9	55.9	-57.7	97	141.8	86
2006	353.9	19.5	50.8	424.2	58.6	39.2
2007	259.3	251.1	188.7	699.1	469.5	218.5
2008	299.7	24.4	262.9	587	253.4	229.1

Source: United Nations conference on trade and development, available: [Investment Policy Review of the former Yugoslav Republic of Macedonia \(unctad.org\)](#) (2012), p. 15, last accessed: 17.12.2020

Considering the Technological Industrial Development Zones (a policy grounded in 2007, which supports the development of businesses by offering “prepared industrial sites and pre-built factories with investor-ready physical and legal infrastructure, support services and tax, customs, and other additional incentives” (see chapter 7.3.6) (United Nations, 2012, p. 18), North Macedonia introduced a special mode with attractive conditions to develop this sector. (UNITED Nations, 2016).

Nevertheless, the North Macedonian membership in the EU Stabilization and Association process, and the potential membership in the European Union may have attracted a higher level of FDIs.

7.3.6 Weaknesses and incentives for FDIs

The government of North Macedonia designed several attractive incentives for foreign investors. In the last years (since 2010-2017) the government has invested considerable effort in adapting the legal frameworks to European Union standards. Nevertheless, there are still enough other challenges for foreign investors. The country continues to suffer from corruption, bad customer service, bureaucracy, communication difficulties, lack of rule of law, interference of politics in the judiciary (KPMG, 2017).

Challenges that should be considered when investing in North Macedonia:

- High unemployment and lack of training
- Substantial formal economy
- Mediocre transport infrastructure
- Indebtedness of the private sector
- Unstable political environment
- Conflicts between the Slavic and Ethnic Albanian population (Nordeatrade.com).

The government worked on getting the same rights for the foreign and the local companies, it introduced a flat tax of 10 percent for corporate and personal income tax which should attract

investor, as well as introducing a One-Stop-Shop which means lowering the administrative barriers, such as, registering a company within 4 hours and get all of the information needed for operating in the country online (Nordeatrade.com). The foreign investors are permitted to reduce the profit tax according to the amount of prior profit reinvested in tangible assets, which is used to expand their business. Following incentives were given for investment in appointed zones:

- Ten years tax holiday from profit tax for entities operating in those zones;
- Exemption from value added tax for trade in those zones;
- Tax holiday from personal income tax on salaries for employees in companies in those zones in a period of 10 years (KPMG, 2017).

A very important incentive for FDI are also the utility costs. In the following table one can see that North Macedonia is ranking low when it comes about the utility costs (World Bank Group, 2006).

Table 16:

Table 4.5: Per Unit Utility Costs, by Country

(in US\$)

	Electricity (per kWh)	Gas (per cubic meter)	Water (per cubic meter)
Albania	0.103	0.01	0.19
Bosnia & Herzegovina	0.117	0.28	1.79
Croatia	0.095	0.38	3.06
Macedonia	0.078	0.26	0.49
Serbia & Montenegro	0.065	0.22	0.53
Comparators:			
Czech Republic	0.060	0.26	0.00
Hungary	0.083	0.33	0.92
Slovakia	0.080	0.30	0.79

Source: Local utility companies.

Table 4.6: Corporate Taxation

(as %)

	Standard Corporate Income Tax Rate	Value Added/ Sales Tax Rate
Albania	23	20
Bosnia & Herzegovina	20	14
Croatia	20	22
Macedonia	15	18
Serbia & Montenegro	10	18
Comparators:		
Czech Republic	26	19
Hungary	16	25
Slovakia	19	19

Sources: PWC tax guide and local tax specialists.

Source: World Bank Group (2006), p. 58

7.3.7 Establishing a business in North Macedonia

According to the Trading Company Law, foreign investors are allowed to establish entities with foreign participation or acquire a local partner. In general, there is no limitation for participation of foreign entities or individuals and there is no special permission is needed of the government for setting up a business, except banking and insurance activities and investment funds (KPMG, 2017).

7.3.8 Business cooperation of North Macedonia with Austria

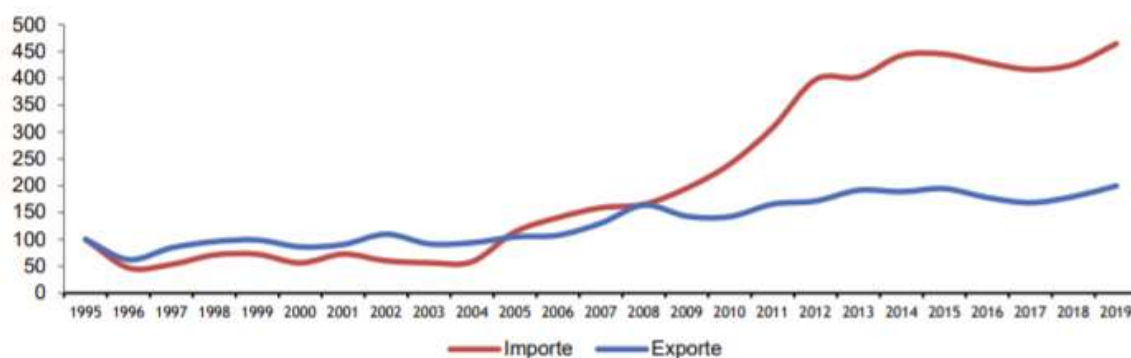
The year 2019 was very important for the cooperation between Austria and North Macedonia. On one hand, the Austrian supplies grew for 11,1 percent to 124,6 Mio. EUR, and on the other, the North Macedonian imports grew for 9,2 percent to 72,7 Mio. Austria exports beef meat, synthetics, textile, pharma products, and paper to North Macedonia and North Macedonia exports mostly clothes to Austria (WKO, nordmazedonien-wirtschaftsbericht).

Table 17:

Austria economy in Macedonia	Unit	2005	2010	2015	2019
Import of goods from Macedonia	Mio. EUR	18	38	70	73
Export to Macedonia	Mio. EUR	65	89	121	125
Foreign trade balance	Mio. EUR	47	51	52	52

Source: Wirtschaftskammer, available: [lp-nordmazedonien.pdf \(wko.at\)](https://www.wko.at/nordmazedonien.pdf) (2021), p. 7, last accessed: 15.12.2020

Grafik 5:



Source: Wirtschaftskammer, available: [lp-nordmazedonien.pdf \(wko.at\)](#) (2021), p. 7, last accessed: 15.12.2020

Concerning services, Austria exported services worth 31 Mio. EUR and imported services accounting for 53 Mio. EUR (chapter 7.3.4.), out of which mostly in transport services. Austria is the largest investor market for North Macedonia when it comes to services in energy supply, mobile communications, real estate (WKO, nordmazedonien-wirtschaftsbericht).

7.4 The telecommunication market in North Macedonia

There were cases of monopolies or duopolies in North Macedonia in several industries. The result was high prices in these industries, often comparable with those in the European Union, while the average salary in North Macedonia in 2008 was 325 EUR, compared to 1.500 EUR on average in the European Union (Tradingeconomics). One of these industries that faced a duopoly until 2007 was the telecommunications industry. Back then, there were two companies on the North Macedonian market, T-Mobile (at that time Makedonski Telekom, the incumbent, partially owned by Deutsche Telekom) and One (at that time Cosmofone, owned by Greek Cosmote, which never got a big part of the market). During the 2006 elections, the ruling party, VMRO DPMNE made a promise that if they win the elections they will bring a third operator to the country to lower the prices. After winning the elections, the government led by VMRO-DPMNE, opened an auction. Telekom Austria won it and entered the market under the brand Vip, which the group had already used in Croatia and at the same time was being built up in Serbia. After the market entry, Telekom Austria signed a strategic partnership with Vodafone on a group level in 2008, and in 2015 the local subsidiary merged with One and became One.vip which is the second biggest operator in the country nowadays (chapter 7.5).

7.4.1 Makedonski Telekom

Makedonski Telekom is a part of the Magyar Telekom Group with a full consolidated subsidiary of Deutsche Telekom Group. It started operating on 1 January 1997 as a state-owned company independent of the Post. The predecessor was PTT Macedonia offering services such as telecommunication, postal, and banking. It was divided into two entities: AD Makedonski Telekomunikacii and AD Makedonski Posti. In 1998 followed a registration as a Joint Stock Company in order to privatize it. In 2001 the Government of North Macedonia signed a contract of acquisition with the Hungarian telecommunication provider, Matav. Matav acquired 51 percent of the shares (telekom.mk). The shareholders of Makedonski Telekom nowadays are divided as presented in Grafik 6:

Grafik 6:

Shareholders of Makedonski Telekom by 31.12.2020 inclusive		
Name of owner	Number of shares	As %
STONEBRIDGE COMMUNICATIONS AD Skopje	48.877.780	51,00
Government of the RM	33,364,875*	34,81
Makedonski Telekom AD (Treasury Shares)	9,583,878**	10,00
IFC	1.392.204	1,45
Other minority shareholders	2.620.044	2,73
Total	95.838.781	100,00

Source: Telekom Makedonia, available: <https://www.telekom.mk/shareholders-structure-3116.nspix>, last accessed: 19.02.2021

7.5 Telekom Austria – Company background

Telekom Austria is the leading operator in the fixed and mobile network in Austria, with 5.4 million mobile and 2.3 million fixed-line customers. Present day's Telekom Austria's history starts in 1996. Before the administration of the telecommunication was still administrated by the state and the telephone responsibilities were integrated into the K.K Post- und Telegraphenverwaltung (telegraph administration). Finally, in 1996 for the first time an independent company was created "Post- und Telekom Austria AG (PTA AG). A few companies formed PTA AG, such as, "Mobilkom Austria AG, Datakom GmbH, Highway 194 Internet Vertriebs GmbH and the Post- und Verkehrsdienstleistungen (Post AG)" (A1.group – official site).

In 1997 the first step towards privatization was done and the Austrian state sold 25,0001 percent of its shares of capital in mobilkom austria to Telecom Italia.

Post- und Telekom Austria separated in **1998**, thus Telekom Austria took over the telecommunications segment. In the year **2000** Telekom Austria made the next step and acquired Czech On Line an Internet service provider a.s., then mobilkom Liechtenstein AG, started its operations as a wholly-owned subsidiary of mobilkom Austria. Later on, that year mobilkom Austria enlarged its stakes in Vipnet Croatia to 61 percent. At the end of the year, the stocks of Telekom Austria were listed on the Vienna Stock Exchange and the New York Exchange (delisted on the New York Stock Exchange in 2007) (A1.group – official site).

In the year **2001**, Telekom Austria expanded to the Slovenian market acquiring a stake in the Slovenian mobile communication provider Si.mobil d.d. (now A1 Slovenia) (A1.group – official site).

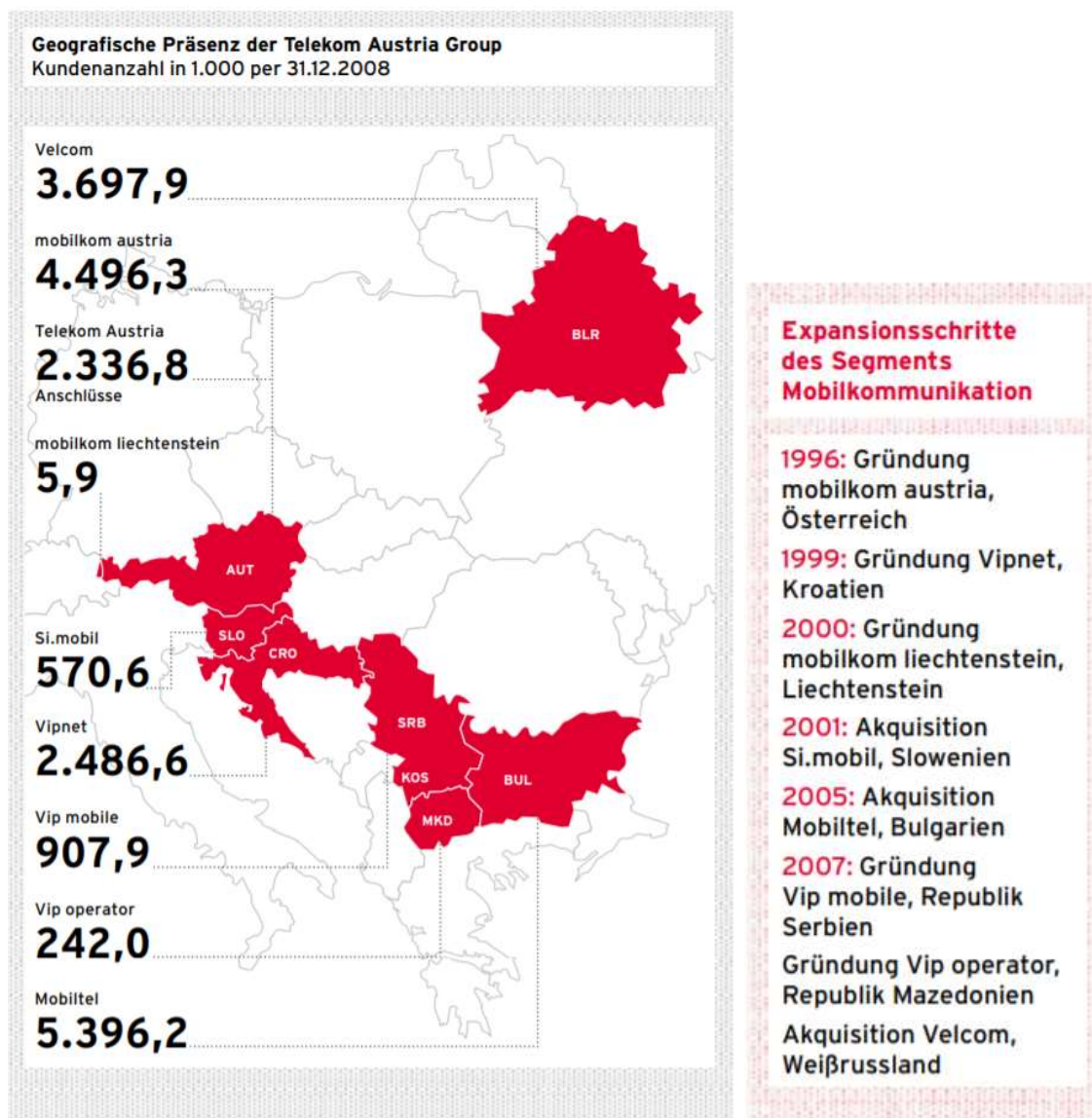
A year later, **2002**, Telekom Austria acquiring back 25 percent stake of Telecom Italia in mobilkom Austria they sold in 1998, and in November that year Telekom Italia sold 75 million Telekom Austria shares, which made a Free Flow of 38 percent (A1.group – official site).

The most important expansion of Telekom Austria to South-Eastern Europe was in **2005** as it

acquired a mobile communication provider – Mobitel in Bulgaria (now A1 Bulgaria). In **2006** mobilkom Austria won the license for Republic of Serbia, and Telekom Austria acquired the “operating countries of the integrated operator eTel”, that had operations in Central Eastern Europe, at the end of the same year (A1.group – official site).

Telekom Austrian’s story in Eastern and South-Eastern Europe continues in North Macedonia in March **2007** as they acquired the third license (see chapter 7.5.1). In the same year they acquired MDC (velcom) in Belarus, as well (A1.group – official site).

Figure 6:



Source: A1 Newspaper (2008), p. 24

Mobile Communication and Fixed Net merged in **2010** and they formed A1 Telekom Austria AG, which from now on was responsible for fixed and mobile communication services in Austria. With the years Telekom Austria grow in Croatia through the acquisition of B.net, the then largest cable operator in the country, enabling the Croatian operation to offer fixed voice, broadband, and TV services (A1.group – official site). Ownership of Telekom Austria changed when a shares that until then in free float were accumulated and after several transactions, América Móvil, the Mexican telecommunications incumbent ended up with a 23,5% stake in Telekom Austria, which they subsequently increased to 50,8 percent (the wall street journal). In the following years Telekom Austria acquired Austrian no-frills operator YESSS! and frequencies, Blizoo (fixed-line in Bulgaria), merged One in North Macedonia and established One.vip (see chapter 7.4.), and it acquired Metronet in Croatia (A1.group – official site).

Table 18 gives an overview of the most important expansion steps of Telekom Austria.

Table 18:

Most important expansion steps of Telekom Austria					
Market entry Croatia	Entry of Telekom Austria to the Viennese and New York Stock Exchange, Market Entry Liechtenstein	Market entry Slovenia	Purchase of the Bulgarian market leader <u>Mobitel</u>	Market entry Macedonia, acquisition of the Belarus <u>Velcom</u> , market entry Serbia, Delisting New York Stock exchange	Merge of fixed network and mobile communication to A1 Telekom Austria AG in Austria, acquisition of the fixed network in Bulgaria
1998	2000	2001	2005	2007	2010

Source: A1 Newspaper (2010), p. 5

7.5.1 Telekom Austria entering the North Macedonian market

Before the market entry of Telekom Austria, the mobile telecommunications market in North Macedonia was a duopoly, held by the Deutsche Telekom (T-Mobile, with 51 percent, as presented in chapter 7.4.1.) and the Greek Telekom (Cosmofone), hence the prices were very high (derstandard.at). As mentioned in chapter 7.4 as a part of the promise the government gave to the population in order to win the election in 2006, they undertook efforts to bring a third operator to the market in order to bring down prices for telecommunications by 70 percent (vlada.mk). The government open an auction which Telekom Austria won and, according to the interviewee Krendl, founded a daughter company – vip - afterward with which it operated on the market. Telekom Austria entered the market in 2007 as a greenfield on limited scale with national roaming. Hence it become the third mobile communications license for use of frequency bands in North Macedonia. Krendl confirmed that the license was limited on ten years and it costed ten Mio. Euro. Telekom Austria assured that they will lower the prices for 67 percent. After the greenfield, Telekom Austria also acquired Blizoo in 2014, one of the largest cable operators in Macedonia, which offered TV services, broadband and fixed voice. In the year 2015 they merged One (next chapter) and several small cable operators, confirmed the interviewee Ljushev.

7.5.2 Merging with One

In 2008 Deutsche Telekom was bought by the Greek Ote and as a result of conflict of interest the regulator in Macedonia accepted that Cosmofone will be sold, said Ljushev. Deutsche Telekom sold Cosmofone to the Slovens and it got a new name – One. According to Ljushev, with the selling, the company was defocused of the market, focusing on internal restructure, and afterwards on services like TV offers and making mistakes invested big resources, made them weaker, making space for vip to merge with them. The contract between the two companies was signed in Bratislava in 2014, as stated by Ljushev. After the signing vip started working on getting an approval in Macedonia, because it will come to duopoly again. Having 40 percent of the market share undertakes regulations for the protection of the

competition, as mentioned by Ljushev. Telekom Austria had to make several offers until it got it approved by the regulator as the competition law is formed such that “the companies that want to merge have to offer the measurement without the regulator telling them when to stop and where did they not offer enough”, said the interviewee Ljushev. After the long struggle and on first view impossible mission, vip got the permit on July 2015 of the Competition Authorities on merging with One, confirmed Ljushev. The merge consisted of mobile, fixed, Internet and transmission of audiovisual content services, which was the beginning of the brighter portfolio of one.vip. The approval was not easy to get and lasted long because the authorities never specified the conditions that were to fulfill, as reported by Ljushev. In the end the merge was approved by following:

1. “Obligation to enable access to applicants as Full MNVO on a wholesale basis
2. Obligation to enable access to applicants as MNVO on a wholesale basis
3. Obligations to offer the spectrum for sale
4. Obligation to offer the current “Boom TV Packages” of One based on resale”

Source: Newsletter Telekom Macedonia (2016), p. 16

8 Results of the case Study analysis and Discussion

8.1 Motives of entering as greenfield

The main motivator to enter the market as a greenfield was the available greenfield license, said Berlinger (interviewee). Telekom Austria was the only bidder on the auction and won the license for 10 mil EUR, confirmed by the interviewee Krendl (interviewee). At that point no existing telecommunication company was for sale.

8.2 Strategies of gaining the market

According to Krendl (interviewee), their initial strategy of gaining the market were the low prices. It was also a condition for getting the license. The low prices strategy was only possible because the costs, like for example the pre- and post-paid system, were distributed within the group and the focus of one.vip was the young population. The young population is however not that stable customer. Whether they will buy credit for the next month or not depended on the pocket money.

8.3 The goal for entering the market

According to the interviewee Andreas Berlinger the biggest goal for entering the North Macedonian market was the growth potential. Initially Telekom Austria needed a license, which the government gave away and then a growth potential. Berlinger believed that the North Macedonian market has its potential following the results from the other ex-Yugoslavian countries. This was not proved wrong. In 2013 the North Macedonian EBITDA grew for 21,4 percent (see Table 19).

Table 19:

KPIs of Macedonia			
Financial KPIs (mEUR)	2013	2012	Difference
Sales	64.9	60.3	7.5
EBITDA adjusted	14.7	12.1	21.4
EBITDA adjusted Marge	22.7%	20.1%	
EBITDA incl. restriction and impairment test	14.7	12.1	21.4
Operating Profit	6.3	0.4	o.A
Assets additions	16.1	13.0	24.2
Mobile communication			
ARPU (in EUR)	7.9	7.5	5.2
Number of customers (in 1.000)	629.7	632	-0.4
Percentage of contract customers	47.5%	41.8%	
Market share	28.0%	27.3%	
Penetration	109.2%	113.1%	

Source: A1 Newspaper (2013), p. 97

The North Macedonian BIP grew in the same year 2013 in 2,5 percent which is more than the Serbian with 2 percent and more than the Bulgarian with 0,5 percent (A1 Newspaper, 2013).

Berlinger is proved not to be wrong also when seeing the fact that the number of customers of vip grew on 242.000 or 71,4 percent until the end of 2008 (A1 Newspaper, 2008) and vip become the second biggest mobile operator on the Macedonian market in only 5 years (A1 Newspaper, 2013). In the newspaper of A1 in 2008 is also to be read that one of Telekom

Austria's Goals was to invest in infrastructure and win on customers as well as increase the average monthly revenue.

8.4 Discussion

8.4.1 Country-level factors

In this chapter the author will discuss the empirical data from the previous research.

Corruption

According to Barbopoukis et al. (2014), several studies have proven that corruption is a major problem in developing countries lowering the level of foreign investments. On the other side, Kim and Wu (2008) found out that the foreign inflows can increase even in a case of high corruption by control of corruption, or better rule of law. Krendl (interviewee) mentioned that "the corruption was lost and the government did not know how to approach" foreigners in North Macedonia. They had several trials for corruption which they could easily avoid. The interviewees did not want to directly confirm prevalence of corruption in the country but they did not explicitly deny it either. According to the interviewee Ljushev "it is a challenge to operate in North Macedonia". Berlinger (interviewee) asserted that corruption in North Macedonia did not have significant influence on the market entry mode that Telekom Austria choice.

Country risk

Country risk refers to the social, political, and economic environment fluctuations that threatens the stability of a business operation in the original mode, as specified by Goodnow and Hansz 1972, Gatignon and Anderson 1988, Erramilli and Rao (1993). According to Reindado et al. (2007) joint venture is a favorable market entry mode choice in high country risk markets but this theory was declined in the case of Telekom Austria. Taking a closer look at the North Macedonian market, it is as such specific because of the Albanian-Macedonian conflicts which are dormant but have the potential to escalate any time like in

2001 (Macedonian-Albanian war) and the Greek-Macedonian conflict which blocked North Macedonia from starting accession negotiations with European Union for many years by that impacting the development of the country. All these conflicts make the country risky for companies expanding in it. Nevertheless, according to the interviewee Krendl, that was not a factor that would have stopped Telekom Austria from entering the market.

Culture

Brouthers and Brouthers (2002) confirmed that in a case of small cultural differences the companies would choose greenfield. Neither Berlinger (interviewee) nor Krendl (interviewee) saw a problem in the cultural difference between North Macedonia and Austria. The company headquarter's representatives were prepared in an intercultural training that should have guided them through the negotiations culture in North Macedonia. Still, both experts claim cultural distance was not a decisive criteria for the market entry mode, confirming it by choosing greenfield and afterward even acquiring One and several other small cable operators. Ljushev (interviewee), from the North Macedonian side, confirmed Berlinger and Krendl's judgment.

8.4.2 Firm-level factors

Experience in using market entry modes

Some previous studies such as Koch 2001, Kennedy 2005 showed a positive relation between the international experience of the company and the choice of wholly-owned subsidiary as market entry mode. The market entry mode chosen by Telekom Austria supports these studies. Telekom Austria had gained an international experience with previous expansion, as mentioned in chapter 7.5., so the corporation had no concerns building up a greenfield in the North Macedonian (and the Serbian) market in 2007.

Complementary resources and strategic issues

Some studies such as Huber 1991, Brouther et al. 2007, confirmed a positive relation between the lack of local market knowledge and the choice of joint venture as a market entry mode.

Opting for greenfield in the case of Telekom Austria does not confirm this. Telekom Austria did not have a knowledge of the market and according to Berlinger (interviewee) and Krendl (interviewee) they used internal and external agents to collect the information needed.

Company size

Agarwal and Ramaswami (1992) found a positive correlation between the size of the company willing to expand and the choice of full-control mode. Despite not being a large player on international level, at the time of expansion, Telekom Austria has been the largest telecommunications provider in Austria (<https://www.statista.com/statistics/765540/austria-mobile-market-share/>) and already before entering the North Macedonian market was a corporation of more than 15.000 employees and almost 5 bn EUR revenue (<http://cdn1.telekomaustria.com/final/de/media/pdf/nachhaltigkeitsbericht-2006-07.pdf>). According to Krendl (interviewee) the size of the company helped them enter the North Macedonian market at first hand. The challenging deadline of 6 months to launch and the costs Telekom Austria would incur would have been too much of a risk without the availability of expertise and resources from other markets.

8.4.3 Market-specific factors

Market size and growth potential

Chen and Mujtaba (2007) claimed that the higher the market potential the more companies prefer to invest in a country and rather choose full control modes because of the potential risk of leaking information. Growth potential can be seen as one of the factors that were decisive to enter the market, according to Berlinger (interviewee). The growth potential was estimated based on the results of the other ex-Yugoslavian markets Telekom Austria already knew and the underpenetration of the North Macedonian market which can be seen in the table below. The penetration in the North Macedonian market was in 2007 at 87,4 percent whereas in Bulgaria 132,8 percent and in Croatia 114,9 percent (A1 Newspaper, 2007). Berlinger said

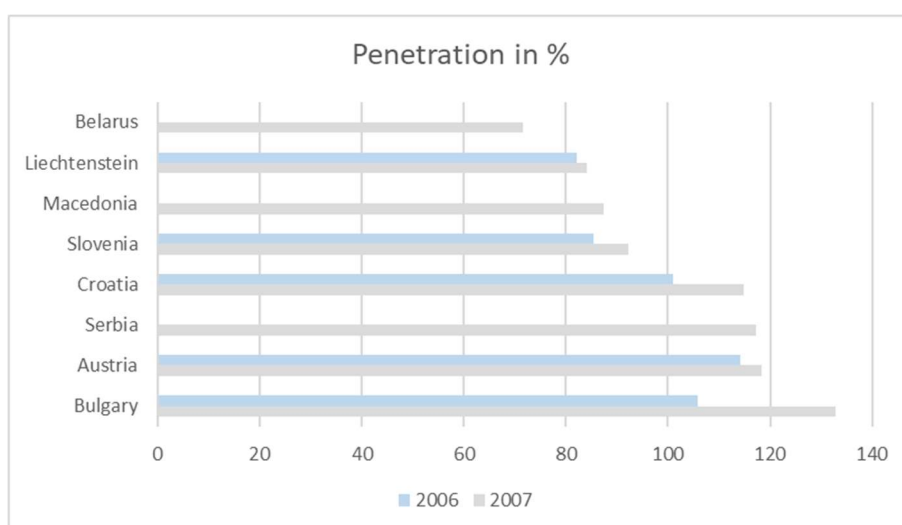
that in 2006 at first sight the market had enough operators considering its size but it was not fully covered.

Table 20:

Penetration	2007	2006
Bulgaria	132,8	105,9
Austria	118,3	114,2
Serbia	117,2	
Croatia	114,9	101,1
Slovenia	92,2	85,4
Macedonia	87,4	
Liechtenstein	84,1	82,1
Belarus	71,5	

Source: A1 Newspaper (2008), p. 67

Figure 7:



Source: A1 Newspaper (2008), p. 67

Demand uncertainties

Demand uncertainties for sure was an important indicator for entering a market but in North Macedonia being declined by the belief of Berlinger (interviewee) of underpenetrated market which means an open space for gaining customers. Krendl (interviewee) said that the target segment of Telekom Austria's North Macedonian brand vip was young people which are not constant but the number of customers they had compensated for the fluctuations.

Competition intensity

The North Macedonian market already had two operators in 2006 (Makedonski Telekom, One) which seemed just adequate for a small country, making Telekom Austria skeptical about entering the market. Despite this, the prevailing price level before Telekom Austria's market entry as well as the low penetration levels qualified the market as an interesting one.

8.4.4 Internal and external factors

From Koch's (2001) external and internal factors, explained in chapter 4.2.1 and 4.2.2. only market growth could be determined as important in Telekom Austria's case. According to Berlinger Telekom Austria did want to growth and sought for opportunities on the Balkan markets. When it comes to internal factors no importance could be noticed in the telecommunications industry.

9 Conclusion

The discussion section above already elaborates deeply on the results from the interviews in connection with the research questions. This section presents a conclusion by bringing together the theoretical perspective of this thesis and the research questions also based on the expert interviews.

The thesis has shown several decision models when it comes to market entry modes such as non-Equity and Equity modes. Non-Equity modes then divides into licensing and franchising,

and strategic alliances and Equity Mode into joint venture, merging and wholly-owned subsidiary. All of these market entry modes decisions are influenced by many external, such as market potential, demand uncertainty, and competition intensity and internal factors, such as experience in using market entry modes, complementary resource and strategic issue, and level of control. Also, the sequential market entry model explains that market entry forms can change over time for the same company within the same country whereas, the country market sequential Order-of-Entry point uses the learning effect approach meaning learnings made on similar markets can be used in one another.

During analysis of the specifics of the CEE region and the telecommunications market the two findings become more and more obvious: The market entry models as presented in the theoretical part of this thesis are applicable for market entry decisions in the region. However, they become challenged when it comes to expansion decisions in the telecommunications industry as the models do not take regulatory frameworks into consideration. Unlike in other industries, a telecommunications provider does not have free choice when it seeks to expand its operation abroad. It depends on availability of regulated assets such as access to incumbent infrastructure or radio frequencies. As a consequence, there is one additional element that is decisive in the telecommunications industry (as probably in other regulated industries as well): *Opportunity*. While other elements of the market entry models such as market potential and competition intensity continue to play a – minor – role in the decision process, opportunity (or: availability of scarce assets at a given point of time) has to be added as relevant variable.

This was proven in the case of Telekom Austria, who sought expansion opportunities within the CEE region (Serbia: Greenfield, Bulgaria: Acquisition, Croatia: Acquisition) but when it came to which country specifically to expand, the most decisive criteria was opportunity, i.e. either an existing telecommunications operator for sale, or new frequencies to be auctioned.

North Macedonia was believed to follow the development of the other ex-Yugoslavian countries and the government, as Berlinger (interviewee) explained, put up for auction a

greenfield license.

Presumably industries with natural monopolistic character in general, such as railways and electricity suppliers, follow this logic, however this was not the subject of research of this paper.

When looking at the four research questions postulated at the beginning of this thesis, the following can be concluded:

Research question 1: Do market entry decisions in Telekom Austria follow the general market entry logic by Chen and Mujtaba or Koch? If not in which way do they differ?

According to the decision-makers of Telekom Austria who were interviewed in the course of this paper, neither market/, firm/, country-specific determinants nor external/ internal determinants are the main influencers of the market entry mode chosen by telecommunication operators, especially not in the concrete example of Telekom Austria entering into the North Macedonian market. The most important determinant of the market entry mode is the availability of licenses, hence opportunity as stated by the interviewee Berlinger on the question how they prioritize the expansion “That was the growth and availability of licenses” (Berlinger, 2020). Market-specific determinants play a role when it comes to whether a market enters into the relevant set under observation. Most attention is being paid at the growth potential as well as on competition intensity. Considering corruption as one of the country-level factors, all persons interviewed did not want to give a concrete answer, but also did not negate that they were confronted with it. Nevertheless, corruption was not a significant factor for the market entry and its mode.

- **Research question 2: Did Telekom Austria follow a similar approach for each market they entered? What were the key differences?**

Telekom Austria entered North Macedonia with greenfield mode, afterwards it acquired several fixed network operators, and later, its former competitor One. According to interviewee Berlinger the company’s approach changed depending on the opportunity. It

would have acquired One if it was for sale on first place. Depending on the asset on offer (frequency bands or a license for auction, an operator for sale, or an operator willing to merge) a decision upon the entry or sequential mode was made.

- **Research question 3: Once having entered a market, did Telekom Austria adapt further expansion steps in this market according to the learnings gathered from the entry? What were the learnings?**

Telekom Austria did not possess location specific knowledge in the North Macedonian market when they entered for the first time in 2007. For better preparation the company relied on the expertise of an external agency. As elaborated in chapter 7.5, the initial market entry as a greenfield on limited scale with national roaming in 2007. In 2014 Telekom Austria started acquiring numerous cable operators, blizoo having been the largest one of those, after the company had decided for a convergent strategy (chapter 7.5). The merge with One happened opportunistically after that operator became defocused after an ownership change and a restructuration as mentioned by interviewee Ljushev “They had some different ideas that defocus them from the market” (Ljushev, 2020). Thus, it can be concluded that each expansion step in the market, every acquisition and merge in the country was based on the circumstances at first. Nevertheless, the learnings about the market were imperative for all but the first expansion steps to happen: Telekom Austria would not (and never has done so) start a greenfield in, or acquire fixed operations in a market without the previous knowledge gathered in the less complex mobile telecommunications market in a country. Also, a merger at height only was possible after having gathered deep insights and gained a certain size in the market.

- **Research question 4: Does Telekom Austria support or defy the experiential learning from the Uppsala model made on similar markets?**

According to the interviewee Berlinger, Telekom Austria uses a specific footprint in the expansion policy, which supports the experiential learning from the Uppsala model. The company before entering North Macedonia, already had a CEE focus expansion strategy

which was following the south path. After having expanded to Slovenia, Croatia, and Bulgaria, North Macedonia (and Serbia, at the same time) was a logical step to be covered. Berlinger confirmed that the company's sequential approach certainly supported them in gathering learnings and expertise to optimize spending in the subsequent expansions.

Limitation:

The empirical research was carried for only one Telekom operator. While the interviewees confirmed that expansion patterns in Telecommunications industry in general follow a similar pattern, the expansion strategies as such most certainly differ from one to another corporation.

Recommendations:

Considering the similar business logics that applies to all industry operation in markets with natural monopolies, further research in these industries and their market entry to the North Macedonian market could be of interest to confirm *opportunity* as the main decisive criteria for market entry.

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11 Appendix

11.1 Questionnaire for the Interviews

- Was there an expansion strategy Telekom Austria followed?
 - Which markets?
 - Which kind of target companies (mobile, fixed, previously state owned, startups,...)?
 - Based on available funds in a given year?
 - Opportunistic?
- Was there a ranking of criteria priorities?
- What were the strategic considerations of TA why they wanted to expand at all?
- Did TA want to become a regional player? What was the scope?
- Why were all TA expansions in CEE and not in markets like CZ, HU,... that were closer geographically and culturally?
- Did TA consider other options to enter the MK market?
- What was the main motivator to enter the MK market?
 - Revenue potential?
 - Footprint?
 - Cheap labor?
 - Political reasons?
- Would the same market entry path have been taken again from an ex-post view? What did the past experience show?
- Was there any influence from the Vodafone agreement?
 - In regards to choice of markets
 - In regards to brand
- Was there the consideration to use licensing/franchising model with Vodafone (as it was the case in Slovenia for some time)?

- What were the reasons for making Acquisition?
 - increased market power?
 - overcoming entry barriers?
 - cost of new product development and increased speed to market
 - lower risk compared to developing new products
 - increased diversification
 - reshaping the firm's competitive scope
 - learning and developing new capabilities?
- Was valuation based on any specific scientific model?
- Was greenfield also an option when entering the fixed telephony/communications market in the 2010s?
- The association between cultural distance and greenfield investment will be weaker for subsequent entries than for early entries?
- Tangible/intangible assets available?
- Has it helped that TA before had entered the Croatian market? Did you used that experience in MK?
- Was knowledge about the MK market available inhouse? Or taken from outside?
- Was MK more challenging than other (closer) market (entries)?
- Was there any support from Austrian authorities (such as WKO – Austrian Economic Chamber)?
- What about corruption?
- Country risk – were there any considerations taken, e.g. connected with the conflict with Albanians that was quite recent? How was this evaluated?

11.2 Answers from the respondents

11.2.1 Name of respondent: Pavlina Filippi

Date: 28.08.2020

What was your position in the company when Telekom Austria entered the Macedonian market?

- *Head of Project Office*

What is your position now?

- Group commercial coordination/project manager

How much were you included in the market entry?

- I was Macedonia since the very beginning but stayed only until 2007 and that is why I do not know the following process.

What do you know about the market entry form of Telekom Austria to North Macedonia?

- The project was called Teresa and it was a Greenfield and a business case based on hosting concept.

Where there any cultural differences?

- I come from Bulgaria, a country with a very similar culture, so I cannot say much. I saw that the language was a bit of a barrier but only when it came to official translation of documents, which slowed down the work a lot.

Tangible/intangible resources available?

- We had everything brought from the other countries like, billing system hosted in Austria, Core Service Network hosted in Bulgaria, because the initial investment for a full flagged operation would be way to high and bring a negative business case.

Was cheap labor a motivator for entering the Macedonia market?

- Well, cheap labor – cheap prices, cheap services. So that was not our motivator.

Had it helped that TA had entered another similar CEE countries before?

- The entry to Serbia did help us a lot. Because it was the only greenfield we did before. It mostly helped us concerning the technical problems.

Was the Macedonian market more challenging than others (closer) market (entries)?

- Yes, it perceived it more challenging because of the low prices we had to guarantee and because of the macro-economics.

11.2.2 Name of respondent: Andreas Berlinger

Date: 07.09.2020

Was is your position in the company?

- M&A Expert

Was there an expansion strategy Telekom Austria followed?

- Macedonia 2007, we already had CEE focus expansion strategy in Telekom Austria it was following the path south. From Slovenia, Croatia, Serbia, Bulgaria so North Macedonia was a logical place on the map. The market was still underpenetrated. Yes, it followed a strategy – grow and underpenetrated CEE markets.

Was there a ranking of criteria priorities?

- That was the growth and availability of licenses.

What was the strategic consideration of TA why did they wanted to expand at all?

- Growth and exporting of proven business model of mobile operators.

Did Telekom Austria want to become a regional player? What was the scope?

- Absolutely! The international potential franchise is a bit limited because you have to build up an infrastructure in each country. Nevertheless, there were news where as a bigger player you could create more value. The bigger you are, the bigger values you can create although given the limitation of national minimal deposits. The scope was growth, increase penetration increase customer.

Why where all expansions in CEE and not in markets like Czech Republic, Hungary,...that were closer geographically and culturally?

- Actually, there were discussions, more funny discussions. In fact it was the availability of licenses that were given at that frame from 2000 – 2007/2008. Czech Republic was already much more mature and the former Yugoslavian countries, all of them, were in the same state of development after the break up. So, they were later than Czech Republic in the development.

The experience that you made in other CEE countries made you dare, so to say to enter Macedonia or Serbia with greenfield? Because before you had never had any greenfield cases.

- We had in Croatia something close to greenfield. It was a license with an existing poor to small network but we have gained a lot of experience also in Austria of building up an infrastructure and mobile network. So, in Austria we started earlier of course not with GSM but with the technology before we started in the 70s, with GSM it was late 90s. So we knew how to build an infrastructure for mobile operators.

If there was no license predefined greenfield for Macedonia, would you have chosen the same market entry or were there some other options considered?

- The second operator was not available, not for sale. So the only way to enter the market was greenfield.

But later you did buy the second operator?

- Yes, we acquired/merged One.

Did you follow any footprint?

- The general scope was the Balkans mainly. Belarus was an opportunity we took; you can say broader CEE but the original focus of expansion was the Balkans.

Are there things you learned in one market that were not beneficial to the entry of another market?

- Country specific legislation cannot be transferred across borders.

Looking back now, do you think that you could have gained more if you entered these markets in a different order?

- Gain more if we did it in a different order? Who could tell.

Did you consider Macedonia stable or instable?

- Rather stable

Would the same market entry path have been taken again from ex-post view? What were the learnings you took?

- Well, it was the only available path to enter the market. And since the market was underpenetrated relatively high prices, we thought it is a good opportunity to enter anyways.

Was there any influence from the Vodafone agreement? Was there the consideration to use licensing/franchising model with Vodafone (as it was the case in Slovenia for some time)?

- Vodafone cooperation was more on service level, so we shared services and roaming agreement but there was no connection between the brands as such and no connection between operations. Entering with the Vodafone Brand – no! and entering as a third or fourth player on the market by Vodafone was also not an option.

Was it an acquisition or a merge with One?

- Technically, it was a merger but afterward we acquired all of shares of One, which was the acquisition. So, first merger in September/October and three years later we acquired them.

Did this increase your market power? Did it help you overcoming entry barriers? Costs of new product development?

- Macedonia is relatively small country and you must imagine that there were three complete mobile infrastructures there. Mobile infrastructure has a relatively high fix costs and as a mobile operator or any other infrastructure operator you have high fix costs and no marginal costs. It makes sense to have a lot of customers on one network. I love to compare it to the railway or electricity or the autobahn. It does not make sense to make two railways next to each other it fact in makes more sense to pack more traffic on one very good infrastructure. It would not have been sustainable for three infrastructures to survive in Macedonia therefor it was the only possibility to keep a level of competition without one going out of the market. By that time Telecom Macedonia was the incumbent and a relatively stable infrastructure, good infrastructure, could maintain high price level because it also had a fix line. Whereas the two smaller ones were struggling refinancing the initial investments. So basically it was a matter of surviving for both of them to combining to one.

Were there any regulatory obligations connected to the merge?

- I do not remember all of them but one of them was to allow MVNOs, frequency sharing, site sharing. Pretty heavy ones, actually.

After merging was an over-capacity (employees, base-stations, frequencies) a problem?

- Of course there were but I would rather call it room for improvement. In term of peaking the right side to using tool and now dissent level of coverage. It was too low on both side. People wise not that much but yes. And regarding production, production cost pro customer because way cheaper. As we had a bigger customer base and although bigger infrastructure – better infrastructure, more competitive one.

Tangible/Intangible assets available?

- The license, office space, people who are able to manage to build up the network. Partially we imported because there were not many people in Macedonia that have started and implemented a mobile network in a very short amount of time. But you need local people for site-acquisition, like you go to a landlord and you have to negotiated with him. They speak the language, they know where to go to get all of the approvals.

Was there any knowledge of the Macedonian market or was it taken outside?

- Outside and insides – yes

Was there any support of the Austria authorities? Or this you get any incentives by the Macedonian government?

- No. Not that I know.

What about corruption?

- There were several cases. One of them blowing up in Austria, in 2010 and after that never ever would we have done anything wrong. There might have been attempts but that was not a structural issue.

Were there any mentality-related challenges in cooperation with Macedonia?

- No, because our product is so easy. It enables people to talk to each other and communicate. There are regional, local, national differences. In some countries we see that people love to speak on the mobile box and some others they never do, but that is not really an issue

Did the view on the market change with the gained experience?

- Of course it does, but that does not affect the decision to enter or not. The market develops and you have to adapt.

Whom did you consider as biggest competitor?

- Telekom Macedonia.

What is typical for this market entry or your presence in Macedonia?

- Later, especially after the merge of one.vip, we started buying cable operators (10-12) because the content that the people consume went more in the direction of videos, more data which we could not cover with the mobile network only. Which means the fixed network became more important also TV products. This local infrastructure was the second merge/buying we made in Macedonia. We bought many local cable networks that were connected to our infrastructure. The market development was driven by the customers.
- Closer cooperation of Croatia and Macedonia concerning the roaming and management, product development.

11.2.3 Name of respondent: Andreas Berlinger

Date: 12.04.2021

You mentioned before that you already followed a CEE expansion path? In which CEE countries are you operating and when did you enter?

- We currently have operations in Austria, Belarus (since 2007), Bulgaria (2005), Croatia (2002), Macedonia (2007), Serbia (2006?) and Slovenia (2004?) and in Germany (2018?) and Switzerland (2017?). Not sure about the dates

So, you did not enter all of these countries at the same time. How did you determine which market to enter?

- Market entry decision mainly based on availability of frequencies or target companies with frequencies. In the case of Switzerland, the target company was an asset with a unique skill (Infrastructure as a service provider)

Do you think some of the entry cost/learning about new markets were less having entered certain markets before others?

- Our sequential approach for sure helped us to learn and get expertise to save cost in the next round.

Do you think that entering one country market before another benefited you in entering that market? In what way?

What kind of experience did you gain from entering these markets?

- Our management teams developed the abilities to ramp up operations quicker and more lean over time. Shared resources from the group are another important advantage.

11.2.4 Name of respondent: Julijana Woschnagg

Date: 16.09.2020

What was your role at vip?

- I was the first employee in vip and worked as a *lawyer*. I did not do the registration of the company because an extern lawyer already had that done.

What do you know about the license of vip?

- Telekom Austria was the only one on this auction. So there were no bidders.

Did you have any problems with the registration of the company?

- There were no any juristic problems. There are many rules you should follow but I would not call them problems. The company was formed as a limited corporation company. From the beginning up until the merging with One it was a limited corporation. Telekom Austria is an indirect 100% owner. In Austria is a holding, whom it belongs vip to.
- When one buys a company the bought one does not stop existing right away. For some time they both exist. First thing you change the ownership and afterward once you have made all conditions work working together one company stops working. So in the case of one.vip it lasted a while until they become one. After three years we even bought the whole company.
- In Macedonia, as well as in many other countries, when you buy a company you need an approval of the regulator. You have to assure them that it will not be in a disfavor of the customers. In the case of the merging of One und vip, vip had to find MVNO, which was Lyca, MVNO based on resale, obligation to offer spectrum to others, obligation to sale base stations you do not need, TV- Packages to be sold also to other operations so they are able to resale it, obligation to make available Telekom Austria Group direct to home able solution via satellite, as well as nomination trusty which will monitor how you fulfill these obligations.

11.2.5 Name of respondent: Robert Krendl

Date: 18.09.2020

What was your role in Vip in Macedonia?

- I was the CFO.

You were in Macedonia since 2007?

- I drove down in April 2007. Two colleagues were already there so I was the third one to come.

How did it come to the idea to go to Macedonia?

- The strategy was to find some new operations in the Balkan countries and we had already Slovenia, Croatia, Serbia was just at the start and Macedonia was the next country we looked in. The main interested person to launch in Macedonia was the ex-CEO of Telekom Macedonia, Jovan Petrovski. He wanted to start a new company there and approached us. Thanks to his help and knowledge we got the license. The challenge of this license was that when the license was rewarded we had an obligation to launch after 6 months which is a very short time to build up a network (which normally would be an year). So we had the pressure otherwise they would have retrieved again.

Why was the government in a hurry?

- At that moment were just two operations on the market. So if you do not make competitions those two will live very good. In average the prices in Macedonia compared to the Balkan countries, Macedonia was the highest skim at that time. Mr. Gruevski, the prime minister, was motivated to bring the tariffs down that is why he brought one more competitor on the market. At that time I was head of Group Controlling and strongly involved into the merging stories and was in a favor of this entry simply because Macedonia is a small market with two operators already, sharing the market. Cosmofon was already established so entering as a third operator as risky.

What was the concept of entering the market?

- On the technical side, the idea was building up a network, customer serves, but all main technical system we will not build up in the country. The only way how we could survive. It was much cheaper considering that we used resources that we already had. We had our pre-paid building system in Austria, post-paid building system in Bulgaria, in Croatia fraud management system. So really distributed in the group. Because you cannot build up a network so fast, we started in Skopje, then Tetovo, and so on but for the others we had a national roaming agreement.
- From the organisation's side, we came with three people, first we found a building, the Pelagonia building, and no employees. Not one. Just before we launched we started looking for people and a flood applied. We also gave this to Bulgaria to handle. We cherry picked the right people. I build up the finance organization. Starting with accounting, controlling, procurement, building and collection. We had a data ware house in Croatia and could look how the subscribers go up and how this people behave. To cut the story short, we did it even in shorter time than six months. We started with a price of 7,7 Denari also our numbers started with 077 so it was a

great marketing launch. Also Mr. Gruevski came to see whether we have fulfilled the agreement.

Did Vip continue being so successful?

- Success had also negative spots on it. In usual it is a discussion between the CMO and the CFO how to place the offers. Especially when you go on post-paid. On post-paid you give cheap or even for free head-sets. The interest of the CMO is to have a very low entry barrier so meaning we do not take a lot of data of the people, and do it very fast but the CFO is sceptic. Here we learned our lessons on the Balkan. On the first two post-building cycle I could collect only 22 percent. So 78 percent disappear. The first big shock was that people give fake information. After one year we had the collection rate on 90 percent which is good for the Balkan. In Austria it is 99 percent. Another challenge in Macedonia was that normally you get the post-paid bill by the post-man. But this did not work in Macedonia for many reasons. They did not deliver everything we sent. We had to change that and send the bills via email. Considering that our target were the young people, that did work better. The Macedonian market was mainly a pre-paid market. After the launch we went down but we found a good market person that had the obligation to bring the market up.

The pre-paid customers are not the very profitable customers?

- Generally yes, but there were many people that phone a lot on the pre-paid. People that want to stay anonymous. You do not need to register for pre-paid. These pre-paid cards made high revenues.

Cultural differences?

- Yes, for sure. I was one year in Slovenia before, in Croatia so I was a bit trained for the Balkan culture. We had an international team so it was not a big problem. We normally have cultural-trainings before entering the market, to understand the differences. The big difference in making business is the emotional reaction and the win-lose case. In Austria everybody is satisfied with a win-win situation, which does not work in Macedonia. In Macedonia the other has to be the winner.

What about the corruption?

- The corruption was lost. Because we were two Croatia and one Austria. They did not know how to approach us. We stayed out of that from the very beginning. We had a lot of pressure for employing relatives but we did not take even one. What also is typical for the Balkan are the invitation and making deals at person while eating and drinking.

Did you have any problems with the Macedonian-Albanian conflict?

- At the beginning it was spooky. They were fighting in Tetovo and we got awake by shooting. We had an escape plan to go to Greece. But we never had an issue with these two nationalities. When it comes about Marketing we had to advertise in both languages. At the very beginning, we had a higher market share in the Albanian community than in the Slavic community.

How did it come to the merge with One?

- Cosmote were in a shock because they were both by the slovens and had a bit bad ideas so they went down. They were busy making a full service provider. Made the rebranding, which was not that successful, then the conflict with Greece got stronger, so that is why they sold the company. Cosmote did not have enough experience to deal with all this. Already at the beginning our goal was to overtake them at some point.

Did you have some learnings from the Serbian market?

- Yes, we shared a lot of information. They help us a lot with the post-paid billing system. A Serbian made a joint Venture with a Macedonian printing company, to print out bills because we used a code nobody in Macedonia could do for us.

How did you calculate the value of the license? It costed 10 mil EUR.

- You make a Business case as usual. You have some assumptions, we had some knowledge of the market from Jovan Petrovski, what is the average revenue per user. There was an idea that we come to a positive EBIT after 5 years, positive Cash flow after 7 years. An interesting story was that nobody told us, or we did not realized but after 3 months I got a bill of half a million for a license fee. In an addition to the 10 millions we had to pay every half a year an extra million which was not in any business case. With this the pressure to be profitable got bigger.

Which KPIs did you use?

- Number of subscribers, APU, revenue per user, collection rate, network coverage, how long has a customer to stay in the waiting line.

11.2.6 Name of respondent: Nikola Ljushev

Date: 22.09.2020

What was your role in Vip?

- I was the CEO and CTO, because we could not afford two people for each of the positions

What do you work before?

- I was the CTO of the competition, Cosmofon. In April 2007 I was contacted by the A1 Group for starting negotiations for roaming. Obviously, they negotiated with Telekom Macedonia at the same time. For these negotiations we met in Athens but unfortunately we did not come to agreement and they used the services of Telekom Macedonia. Shortly afterward started the negotiation for interconnection. When you make the network it is not enough to give services only to the customers of your

network but they want to have a sim-less communication, for this reasons you need a formal commercial connection in which in every minute will be paid to the company which customer calls the other operator.

When did you start working for Vip?

- I started somewhere at the end of 2006, beginning 2007. Back then the operation had had started 2 months before. The official operating started on 19.09. and each year we celebrate the birthday of the company on this day. They started 19.09.2007 and I came two/two and a half months afterwards. How did the company start?
- The history of the company starts in 2006. In 2006 early Autumn the government opened an auction for a third mobile operator. We had the elections that year in summer and the government promised to lower the prices. In March 2007 Vip got the license officially. The company started working under the name 'New operator', Vip operator came in 2007, when it started operating. The brand Vip is created in Croatia. We were obliged to start within six months, which was the biggest challenge. Already in April 2007 we were contacted by A1 for starting negotiations for roaming.
- The team that worked that from the beginning started all this as a project. In the first couple of months the things did not move so fast, so Mladen Pejkovic came to help in a role of CEO. Back then he was the CTO of Vip net Croatia. He had to help the company to start working within six months. The team was very small. They had mostly foreigners but also some Macedonians. We managed to start on time. The prices we started with were dictated by the government. They were defined in the auction. The prime Minister Nikola Gruevski came to check whether we have really started with these prices. At the beginning we had a big acceptance of the population. Big enthusiasm. We started with a pre-paid productions and end November 2007 also with post-paid considering that the target group for post-past is different that the official target group of the company. Vip was everything Telekom was not. Telekom associated with stability, power, and the target group powerful, successful people. Vip's target group were the young people. Young people that can use the services as the financials come. The whole structure of Vip was unformal, young, modern. The company started aggressively taking a big part of the market. In that point that the competition started contacting us and complaining. This business has big fix costs. What I have to make for this business to work it does not make a difference if I have 1.000 or million customers. With the traffic some variable, margin costs are also included but they are not that high. What helped us to take a big part of the market were the low prices. The fact that in four years Cosmofon did not manage to take more than 30 percent of the market, tell us that Cosmofon did not want to change the prices on the market. They knew that this market cannot grow. Back then we came to 80 percent penetration. From nominal 2 mil citizens 1,6 mil SIM Card. So for Vip were left only those 400.000 that were not covered by the other operators and normally those that have 2 SIM-Cards. In average everybody has 1,7 SIM-Cards, so 140 percent penetration which is comparable with Europe. There are questions like: Why is the penetration only 80 or 100 percent? We can grow more. Realistically it is not possible.

What was your opinion of Vip entering as a third operator on the market?

- We believed that we will get to some fair share. We reached 52 percent of the market, according to the number of SIM-Cards. Vip had many different phases. Phases when we grow a lot and all of the sudden it was gone. We had years when we grow 1 percent market share in a semester which means in 12 years you will get the half of the market. All of the sudden the market suffocated. In 2008, on the first birthday we had some 12 percent market share which was the pick. But Our focus was pre-paid and unfortunately, we did not manage to attract the serious customers. We attracted those that were opportunists, that wanted to have cheap and not that high quality products. Starting September 2008, after the first birthday we were just falling. We had a high raise and suddenly started falling drastically based on the 'failures' Vip had. We were not a new brand anymore and did not leave the honeymoon period anymore. Our citizens believe a lot in foreigner products but if they get disappointed, they leave. Many of our services were provided by our daughter companies so we did not have a control over everything. The second reason for the fall was the focus on pre-paid. Our policy was your SIM-Card is valid for 12 months and for each charging you get some extra months. Many customers that were curious and bought a SIM-Card at the beginning wanting to test us did not continue using our services. That was a reason to make some changes. We were not sure that the people on the top have the capacity to move our business. In Summer 2008 many expats went home. We mostly took resources from Croatia because we could not afford an Austrian. The fall was until May 2009 in which period we lost the half of what we earned before. So we came to some 6 percent. Then left our CEO, Boris Nemsic. On his place came Hannes Ametsreiter? In May 2005. First thing he did was bringing consultants to make an assessment of the long-term life capability of the company. This assessments were very bad. In May and April 2009 we had the hardest period because they put our existence in question. Hans Tschuden the new CFO set a condition – growth, which we did not have. We had to go to Vienna very often and show some signs of life. Nobody believed that we can reach what we had to fulfill. After a couple of months we had luck. Cosmofon was sold. They sold it because Deutsche Telekom was bought by the Greek Ote in 2008? And as a result of conflict of interest the regulator in Macedonia accepted that Cosmofon will be sold. Deutsche Telekom had to sell Cosmofon. They were sold to the Slovenians. At the same time in the first quartal of the year we bidet on the auction for buying Cosmofon. We were serious but we found out that the Slovenians will pay much more for the license so we gave up. After we gave up and understood that Telekom Slovenia paid 109 mill EUR for Cosmofon it was a trigger for the CEO to call us for a meeting to check out long-term survival. By paying so much it was message to the wick ones, to us, that it will be hard for us on the market. Then we tried to find a way to survive and get better. The second positive effect or our luck that happened, was the come of Telekom Slovenia. They had some different ideas that defocus them from the market. They were first concerned with questions like who will stay, who will go and so on so by that they got less aggressive on the market. Somewhere in May 2009 we decided to make a change on the market. We brought a new Head of Product marketing, Christian Schwarzott, who was very important for the getting back on feet of the company. He stayed in Macedonia until 2011. We had the biggest raise. In the second quartal of 2009 Cosmofon got a new name One and published the analysis and we could see that they cleared their customers base. Thanks to that the share of Vip grow for a first time after two quartal of falling. That was also a

big motivation for the employees. By the end of the year our results were close to the targets and KPI we had to fulfill. In 2010 we got an extension of our life time given by the management. The weaknesses of our competitor One became even more obvious. They got focused on some other service like TV offers and made big mistakes here and invested big resources. In 2010 we grow 1 percent in semester and the board started trusting in us again. Already in the third quartal 2011 we become the second big mobile operator on the market. In 2011 we started with 3G and we delivered much better. We become an important partner for the companies, as well.

In 2013 we saw again the suffocation of the market. Cosmofon also become more aggressive gain and raised the prices which made us be head to head with them again when not even wicker in some services. So in 2013 for a first time came some initial negotiations for merging with One. Nikola Ljushev and Andreas Berlinger made the negotiations and calculations for the merging, checking the potential. The merging went very slowly, some year and a half to agree on the conditions. We signed the agreement in Bratislava, October 2014. After the signing I had to start working on getting an approval in Macedonia, because it will come to duopoly again. On every market if you take A+B we had 40 percent of the market which undertakes some regulations for the protection of the competition. On the first try we got denied and we had to offer measurements for granting a competitive market. This process lasted long because it was not really clear what we should offer. The competition law is formed that the companies that want to merge have the offer the measurement without the regulator telling them when to stop and where did they not offer enough.

- The complication got more complicated as in 2015 April, as CEO came Alejandro Plater, who did not believe in the merging at all. He did not believe that the merge will even be approved.

- We came to some 25 percent market share and stopped there because taking more of the market would have meant a fight with Telekom Macedonia which is not a easy fight.

Alejandro Plater change the board in Vip, making me CEO, in 2014 September we bought Blizoo (daughter company of Telekom Austria and we in Macedonia were extern board) and started offering TV. Here we started acquiring small cable operators. End 2015 we made a cluster between Macedonia and Croatia. Many of Vienna left back, and had as board the board of Vipnet Croatia. This did not function. The cluster comes from Latin America. America Mobile used in everywhere they operate. Cluster means CEO in each of the markets, but one board for all of the market. The decision was Macedonia with Croatia and Serbia with Slovenia. The reason was that Macedonia started with the fix operations and Croatia was also mixed with mobile and fix operations. The logic was there is a synergy and know-how sharing between only mobile operations like in the case of Serbia-Slovenia and mix operations as in the case of Macedonia-Croatia. The decision who will be the head was decided based on the size. Croatia is 4 times bigger than Macedonia so they were the head. This worked very hard. This cluster is maybe efficient and saves money but when it comes about stable markets where there are not any tectonic changes. In our case we worked separately. Vip as mobile and Blizoo as fixed operation company. Therefor it was actually a combination and a join of totally different three operations and cultures. Three operations that work differently. Because of the big changes in Macedonia we would have needed meeting with the board in Croatia on a daily basis, which we

did not get. On top of the merging question was still open. We got the agreement at the beginning of July 2015. The measurement we gave was a social tariff that we will offer to this group of people, that we will sell some of the frequencies, selling some base stations, that within nine months from the merging a new MVNO will start operating on our network. The most challenging task was the MNVO, that had to start within a short time. We merged on 01.10.2015 and within nine months the MNVO Lyca Mobile started operating.

- the challenges in Macedonia are much bigger than in Croatia. They should have come to Macedonia to see how it works. The challenge of merging with Blizoo and One was very big.

What was the challenge by the merging?

- We were not allowed to quit the employees within a year after the merging. They were protected by the law. And we had to make a whole restructure of the organization for the new set up and who will have to leave the company. The management left right away because everything was double. Two CEOs and so on but the management is not protected by law, just the normal employees. This merging never become one company. They still function like two different companies. The employees still identify themselves as an employee coming from Vip or One or Blizoo.

Were there any bigger cultural differences between Macedonia and Austria or Macedonia and Croatia?

- Since the cluster 2015 I only had interaction with the board in Croatia. We had a monthly performance call with Vienna but they looked at the numbers only. The Austrians are more open and easy going. It was important to start trusting you. They knew the Balkan people as people with Balkan manners in a negative way. But the relationship with the board in Zagreb was not good. The board in Croatia saw that the situation in Macedonia is hard and they did not believe in us this made things.

What about corruption?

- It is hard to work in Macedonia.

What were your learnings?

- I should have said 'NO' to the cluster.