Integration Processes in the Telecommunication Sector in Europe

Summary:
In the dynamic development of integration processes in the world economy, the structural change is also evident in the service sector, including the telecommunications. The end of the twentieth century showed an intensive integration processes in the telecommunication sector in Europe, which has a positive impact on the competitiveness of their economies. The main tools are the development of a corporate network integration contracts with companies in different countries, which are part of the corporation. However, the territorial expansion of the European telecommunication operators in the markets of the CIS, particularly Ukraine, assists the development of international strategic alliances and long-term industrial cooperation in joint ventures with the world leaders in ICT.

Keywords:
Integration Processes, Markets, Economy, Telecommunications, Services

The trend of globalization and the rapid expansion infocommunication innovations assist constant tightening competitive environment. In an innovative development of modern enterprises are the network structures relevant, mainly associated with the proliferation of new forms of integration, that are characterized by the mechanism of interaction with other market participants in various stages of development and promotion of services or goods.

On the other hand, the processes of monopoly industries deregulation, such as telecommunications, particularly in developing countries, such as Ukraine, which in 2011, according to the rating „Emerging Markets Pulse Survey“ was number 31 among the countries, which were considered by international corporations as site for business organization, enabling new players to enter the markets of other countries.

Access to the markets of developing countries by multinational corporations has several important advantages associated with large capitalization of the scientific research, advertising, marketing, investment in the telecom industry. However, in a rapidly changing market, which is connected with the development of modern technologies, the consumer preferences are changing, that forces international companies to communicate effectively with the regional business, which is a testament to the interface mobility, as well as the flexibility and variability of vertical linkages, opening new horizons to modern forms of integration.
The main goal of the articles was to justification of sectors integration forms of business organization in the telecommunications sector in Europe.

The theoretical basis of the study served as the scientific methods of cognition (analysis and synthesis, induction and deduction), the dialectical method, the method of comparative analysis, synthesis, classification, historical and logical method and other private methods of learning.

Analysis of recent research and publications. The problem of studying the theoretical foundations of integration processes in the economy devoted to the research of scholars such as M. Porter, M. K. Perry, J. Henry, D. Thorburn, G. Kleiner, B. Livshits, P. Sieber, R. T. Dalimov. In recent years, general economic problems of building integrated structures are reflected in the works of A. Amosha, V. Geets, M. Kyzyma, G. Pasicznyk, L. Fedulov and other local economists. However, these processes are inter-firm integration into the national economy, on the one hand, identified mainly with the structures of holding type, and the other – global trends indicate organizational transformation network structures at the leading type of economic integration. The theoretical foundations of the integration process on the market of telecommunications services and information reflected in scientific papers F. Amesse, R. Latour, C. Rebolledo, O. Lemaire, R. Hall, K. Eisenhardt, C. B. Schoonhoven, K. Rejman.

1. Development of the telecommunication sector in Europe and Ukraine

In the last decade the telecommunication sector of the world economy will have a special place in the modern market economy, which is due to the large average annual growth rate of consumer telecommunications services and a corresponding increase in demand, with the account of technological advances of telecommunications. In turn, the emergence of modern technologies of building multi trammel packet-switched services, and providing access to them, with the gradual integration of telecommunication operators with other multimedia areas of the national economy during the transition to a market economy mechanisms significantly affect its dynamics and structure.

The growth in demand for telecommunication services provided to promote their share in the world structure (2.5% of world GDP in 2005 and 2.7% in 2010) and the national economy of Ukraine (5.9% in 2005 and 4.0% in 2010), in general, due to the innovative orientation of development and implementation of new integrated multimedia services and technologies and expand markets in their own area or in new areas (Table 1). In addition, the increase in the volume of the telecommunications sector increases the effectiveness of other parts of the economy, which are the leading satellite telecommunications operators (Skype, social networks) – on the one hand, and the service sector, weighty share of the
financial transactions that occur on the basis of telecommunications – on the other.

Table 1: Capacity and access of the telecommunication sector

<table>
<thead>
<tr>
<th>Region</th>
<th>Telecommunications revenue (% of GDP)</th>
<th>Fixed-telephone subscriptions (per 100 people)</th>
<th>Mobile telephone subscriptions (per 100 people)</th>
<th>Fixed (wired)-broadband subscriptions (per 100 people)</th>
</tr>
</thead>
<tbody>
<tr>
<td>World</td>
<td>3.1</td>
<td>2.7</td>
<td>19.4</td>
<td>17.2</td>
</tr>
<tr>
<td>Europe</td>
<td>3.2</td>
<td>2.7</td>
<td>24.0</td>
<td>25.5</td>
</tr>
<tr>
<td>Ukraine</td>
<td>5.9</td>
<td>4.0</td>
<td>24.9</td>
<td>28.5</td>
</tr>
</tbody>
</table>


During the liberalization of Ukrainian national telecommunicational markets in the corporatization of state-owned enterprises and their privatization (“Ukrtelecom“, etc.) and convergence with other areas of multimedia, advanced information communications perform infrastructural functions and provide assistance ascending the global economy, as well as the formation of new trends its development related to the search of effective organizational forms of association of telecommunications operators and service providers.

It should be noted that the processes of liberalization and further monopolization of the economy create opportunities greater internationalization of info-communications sector, which is associated with the release of transnational corporations on the foreign markets, including Ukraine, and the related financial and economic activities of companies – residents of the country.

Gradual significant reduction of the particle of the market of telecommunications operators that are in the domestic property (or owned a 51% stake), will reduce the value of their owners’ investment. And as more competitive operators are more likely to act the potential partners of foreign investors in joint ventures, there is a need for further research transformational changes in the domestic market, both from the network organization of business and, accordingly, in the framework of its model generation bundling in telecommunications.

In this regard, special attention is research prerequisites for the formation of networks of telecommunication services market in Ukraine and their functioning in the institutional restructuring of the regulatory framework of economic competition.
2. Development of the market of mergers and acquisitions (M & A) by European corporations in the telecommunications sector in Ukraine

Telecommunications are very highly organized infrastructure of society, which consists of network structures, so the processes of association and acquisitions, as a measure to strengthen market position and create a network of enterprises telecommunications sector, is due not only to the nature of the globalization of the economy of modern economic systems, and the emergence of positive synergies activity (Kuzukov (2009: 16–19).

Progressive development, both global and domestic economy, is characterized by its acquisition of the post-industrial stage of network characteristics, related to scientific and technical progress in the field of infocommunications and telecommunications significant influence (technologies and communication networks) for the operation of all areas of the economy. At the same time, the enterprises of the telecommunications sector as a catalyst for the formation of a network of business organization, actively implement the principle of building the network, which discourages communication between elements of their internal and external environment (Khazanov 2010: 323–327).

Therefore, especially the conditions of management companies of the telecommunications sector, in increasing the last decade of mergers and acquisitions, which are increasingly characterized by cross-border agreements, make it necessary to study the possibilities of their further integration.

Since the beginning of the 21st century intensification of integration processes in the field of telecommunications, and in almost all sectors of the economy with a series of activities carried out in mergers and acquisitions (M & A). Development of the domestic telecommunications business in the direction of the merger and acquisition as one of the most typical ways to strengthen the competitiveness of operators has been associated with the integration and unification of all business processes, as well as the union of technical resources in a single structure.

The main root cause of today’s merger is the development of new services and convergence technologies, since the latter is helping reduce operating costs by moving to a unified communications IP transport platform (Imankul 2012).

The expansion of mobile operators of the last decade with the characteristic of the increase in their income is almost 4 times the revenues in the fixed-line telephony services, and the highest mobile penetration among the population of Ukraine (120% in 2010) and a reduction in the fixed subscriber base. To assist the development of technology Fixed Mobile Convergence as a tool in the total use of resources fixed and mobile networks to provide you with uninterrupted service regardless of geographic origin, as well as for the organization of global services, and billing for services (Knyazev 2011: 10–14).
Convergence as an essential process of development of telecommunications, today supports the formation of a universal telecom integrator of telecommunication services, and therefore the necessary measures to integrate with other service providers are characterized by a form of integration, based on agreements M & A. Considering the development of mergers and acquisitions across industries, will compare the distribution of the world total and the number of agreements from 2000 to 2010 (see Figure 1), taking to the attention of non-stop nature of the changes in the market (see SV-Consulting 2012 and Kuzovkov 2009).

**Figure 1 – Global telecom deal volumes/deal values 2000–2010**

![Graph showing global telecom deal volumes/deal values 2000–2010](source: Thomson Reuters.)

Increase in global M & A market in the telecommunications sector in the last decade certify its extreme, when the volume of agreements reached peak twice: the first was due to the active implementation of information and communication technologies at the beginning of 1999–2000, which supports the presence of global growth operators in the mid-2000s years.

In turn, the regional phase of the consolidation (e.g. in the U.S. market for mobile and broadband sector in Europe) led to a second peak of activity agreements mergers and acquisitions from 2005 to decline in 2007. The sharp decrease of the agreements after this period is related to the financial crisis, which had negative consequences in Ukraine, despite the fact that the field of telecommunications, as a rule, provided relatively stable sector, towards the long term (Lemaire 2012).

During this period, large European operators increased their exposure to emerging markets, with Africa outperforming developing Asia as a target market for footprint growth (see Figure 2).
In Europe, the ten largest transactions with value of more than €1 billion occurred in telecommunications markets in developing and transition countries, as the European Union (Poland) and the CIS (Russia, Ukraine).

According to studies of Thomsonreuters.com and Mergers.ru, due to the crisis the market for M & A in Ukraine (and the world) decreased significantly, but the volume of mergers and acquisitions in the telecommunications industry, from 2010, showed a positive trend (see Table 2).

As the share of fixed-line services in the total revenue from the provision of telecommunications services in Ukraine continues to fall, and data transmission services are gaining more and more important position in the market, the largest M & A agreements in recent years have been associated with the convergence of asset broadband and mobile services.

Leader in telecommunications M & A remains “Kyivstar”, when the merger took place with “Vimpelkom Ltd.” (Russia) in the amount of $5.6 billion in 2010, also “Ukrtelecom” in connection with the sale of assets Epic Invest Telecom Ltd. (Cyprus) in the amount of $1.32 billion, and in 2003 completed an agreement of 100% accumulation shares “Ukrainian Mobile Communication” (trade mark UMC) in the amount of more than $350 million (SV-Consulting 2012).

Besides that, the activity in mergers and acquisitions in the telecommunications sector related to the fact that small regional telecommunications company, as a rule, first increase due to the consolidation of its position, and then themselves melts objects absorb large telecommunications operators, mainly in the segment online services.
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Table 2 – The largest M&A agreements in the telecommunications sector of Ukraine

<table>
<thead>
<tr>
<th>Year</th>
<th>Merger</th>
<th>Deal value (US$ mil.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>TopNET/Mirolink.net</td>
<td>0,78</td>
</tr>
<tr>
<td></td>
<td>Ucomline Holding/Farlep</td>
<td>5,00</td>
</tr>
<tr>
<td>2009</td>
<td>DataGroup/Home-net</td>
<td>1,35</td>
</tr>
<tr>
<td></td>
<td>MTS/Comstar-Ukraine</td>
<td>4,15</td>
</tr>
<tr>
<td>2010</td>
<td>Vimpelcom/Kyivstar</td>
<td>5600,00</td>
</tr>
<tr>
<td>2011</td>
<td>Epic Telecom/UkrTelecom</td>
<td>1321,80</td>
</tr>
</tbody>
</table>

Source: MergerMarket, Thomson Reuters.

It is important to note that during the period 2008–2011 in the structure of M & A agreements in the telecommunications market, the largest share purchase of domestic assets by foreign companies, in particular, 100% of “Ukrtelecom”.

Stimulus mergers and acquisitions in the domestic telecommunications market are not only the demands of consumers, which are rapidly changing, and the search operators opportunities for value-added, and the trend of globalization and the world of technology.

Evaluating the cost-effectiveness of the integration of telecommunications operators in the first place, was designed to reduce the potential costs of infrastructure maintenance, since the board as hardware and platforms can be significantly reduced if the harmonization of requirements for procurement in the new company, according to the compatibility of various network components.

Further development of the M & A effort to consolidate regional telecommunications assets related to the provision of broadband access to the Internet - Internet service providers large telecommunications operators, as the latter will focus on retaining customers and improving the quality of the subscriber base with the slow pace of the races. Therefore, the tendency to market consolidation caused enlargement of telecommunications operators in the domestic market through mergers and acquisitions involving companies with a lack of efficiency and the ability to obtain a synergistic effect.

3. Prospects for integration of the telecommunications operators in strategic alliances

The degree of integration of the enterprises in the telecommunications markets of Western Europe is high, but in Ukraine intensification of integration processes seen in the fastest growing segments of the telecommunications market
– the sector of mobile services, which is caused by increasing the monopoly of the leading telecom operators.

Since the organizational structure of the majority of domestic corporations built and implemented over the holding type, then in the post-industrial economy, they are less adapted to the effective operation and development of the competitiveness of individual elements of corporations and corporations in general, which, in turn, requires more flexibility from large enterprises (Tretyakov 2008; Rejman 2006). Thus, the active formation of integrated corporate structures to networked forms of consolidation of telecom business is an important and promising direction in the development of Ukrainian economy.

Forms of integration of business structure, based on the networking of participants in the process of combining the specific interests and resources in creation of value, have confirmed their advantage over the forms of integration, based on mergers and acquisitions, with the size presets and direct transaction costs, less investment in the implementation of the value chains (Tretyakov 2008).

Review of methodological features and basis for the formation of network integrated structures suggests that in infocommunications of Ukraine’s rejection of an integration strategy based on M & A in favor of a flexible network forms the structural organization of business – strategic alliances, the most responsible dynamic effects of changes of the telecommunications operators in the world (SV-Consulting 2012; Tretyakov 2008). Telecommunications markets, characterized by some special needs associated with the formation of strategic alliances. Strategic alliances – is a universal flexible form associations of market participants, which easily transforms networks.

Patterns of development of strategic alliances in Western Europe, which lead to the following conclusions:

1. The opening of national telecommunications markets for the other parties and the emergence of foreign ownership has led to a noticeable decrease in the prices of telecommunications services and a better quality of services in this area.
2. The emergence of foreign ownership has increased the level of investment in the national telecommunications sectors.
3. Privatization and separation of regulatory and supervisory tasks have been an effective solution to the policy the EU telecommunications markets, thereby creating a transnational strategic alliances and reduce prices for services.
4. Regulation at all national telecom markets of the EU countries was a decisive step in preventing abuse telecommunications holding a monopoly on pricing for the services.

The emergence of new telecommunications companies, including those created in the form of alliances with foreign partners due to the technological deve-
Development and modernization of the telecommunications industry in Ukraine. It provided the Ukrainian companies in the new economy, more direct investment and trade credits for the purchase of new equipment.

Formation of network structures in areas of the world economy in recent years, determined by the characteristics of investment projects and finding areas increased competitiveness on the one hand, and farm output interactions outside the enterprise within the emerging organizational forms of management in the process of inter-firm cooperation – on the other.

During the organizational forms of network increases the need for capital investment to strengthen integration interaction of market participants in a dynamic market growth infocommunication largely due to intense internationalization and investment and technological activity in sectors of national economy. According to statistics (Ukraine in Figures 2011), investment in 2011, the economy of Ukraine amounted to $32.3 bln., including foreign companies invested $6.5 billion. Results of survey of world investment prospects, according to figures developed by UNCTAD (Conference on Trade and Development) index attracting foreign investments have shown to improve Ukraine’s rating of 54 seats in 2006, 47 in 2008 to 38th in 2010, with 141 countries (UNCTAD 2011).

According to estimates by UNCTAD (2011), over the next three years to continue the high level of funding from various multinational companies in the services sector under the influence of the investment climate. Therefore, the investment for sustainable development of the national information and communication industry due to increased capital investment by foreign investors.

The development of network forms involves the formation of two models of the relationship between market participants. The first model – network structure with guiding core (parent company’s dominant position in relation to the others), which operates under one brand. This pattern of relations aimed at interaction partners that are characterized by high flexibility and high potential to adapt to changing conditions.

The second model is the network structure without steering kernel is a set of businesses, interoperable and independent in legal terms, the interaction which increases the resistance of each other in the network (Franke 2002).

Structural interaction in the system of economic integration leads to increasing the competitiveness of individual companies and the network structure as a whole, creating an incentive to form a unified system of operation depending on the strategic goal of entity combinations

Forming and joining organizations in a single network encourages mutual growth in both models presented above basic network shapes, however, initially depends on the business strategy and the degree of its integration of information and communication on the market according to a expansion of a horizontal type, vertical or mixed integration (see Figure 3).
Figure 3 – The degree of integration association members telecommunications market of Ukraine

<table>
<thead>
<tr>
<th>The strategic goal</th>
<th>The degree of integration operators</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Horizontal integration</td>
</tr>
<tr>
<td>Market consolidation</td>
<td><img src="image1" alt="Diagram" /></td>
</tr>
<tr>
<td>Derivation of new services</td>
<td><img src="image4" alt="Diagram" /></td>
</tr>
<tr>
<td>Standardization and coordination of business processes</td>
<td><img src="image7" alt="Diagram" /></td>
</tr>
<tr>
<td>Entering new segments of the industry</td>
<td><img src="image10" alt="Diagram" /></td>
</tr>
</tbody>
</table>

Subjects integration:
- Company initiator
  - Joint-stock company “Top Net”
  - Joint-stock company «MTS-Ukraine»
  - Joint-stock company «Kyivstar»
- Property acquisitions
  - Joint-stock company «Mirolink.net»
  - Joint-stock company «Comstar-Ukraine»
  - Joint-stock company «Beeline-Ukraine»

Source: Own construction (2012).

Among the most commonly used forms of cooperation can be identified to create new joint ventures, strategic alliances, mergers and acquisitions, as well as participation in investment companies and funds in the privatization of state enterprises due to the voucher auctions and purchase of shares of privatized enterprises on the stock market.

Strategic alliances are one of the best varieties in the world economy combined to meet the needs of the market and successfully compete in a globalized modern world economy. However, the increasing dynamism and complexity of the national telecommunications market with a permanent reduction in life-cycle services, frequent technological change and increased competition over time will assist telecommunications operators to a more flexible and adaptive network organization, but the desire for control over the market will keep the strategy of mergers and acquisitions as a way to eliminate competitors in the market.
Conclusion

The telecommunications sector of the world economy in the last decade will sit a special place in the modern market economy, which is due to the large average annual growth rate of consumers of telecommunications services and a corresponding increase in demand, with the account of technological advances telecommunications. In turn, the emergence of modern technologies of multi-service networks based on packet-switched services, and providing access to them, with the gradual integration of telecommunications operators with other multimedia areas, the transition to market economy mechanisms of managing a significant effect on its dynamics and structure.

Technological changes in recent years in the telecommunications field in the direction of an increase in supply at least meet the rapid growth in demand for innovative services. In addition, the market itself has contributed to various technological transformations, not only related to the increase in traffic (increase MOU - the number of minutes for voice transmission), but also with his character and the dominant role of the service as an integrated service, which meets the requirements of consumers and led to important changes in the management structure of the industry.

To increase the resistance of the competition, telecommunications operators are adapting control system consumption of services by expanding their range in order to increase value in products. Increasing importance of customer value for the user assumes the formation offers bundled services that generate new cash flow and increase profitability by reducing costs. However, a limited investment terms of development of the network infrastructure, telecom operators have policies acquisitions or entry into alliances with those operators that have existing infrastructure.

Essential characteristic of strategic alliances, as opposed to other forms of cooperation, reflecting the values of the growing influence of personalization interests and values customer satisfaction on consumer services.
Sources:


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**Abstrakt:**

Integrační procesy ve světové ekonomice postupují velmi dynamicky. Zároveň zde probíhají hluboké strukturální změny, včetně telekomunikačního sektoru v rámci služeb. Na konci 20. století se prohloubily integrační procesy v tomto sektoru i v Evropě, což mělo pozitivní dopad na konkurenceschopnost evropských zemí. Mezi hlavní nástroje integrace patří rozvoj podnikatelských sítí mezi společnostmi z různých zemí. Teritoriální expanze evropských telekomunikačních operátorů na trhy Společenství nezávislých států, zejména do Ukrajiny, pak napomáhá rozvoji mezinárodních strategických aliancí a dlouhodobých forem průmyslové spolupráce v rámci joint venture se světovými lídry o oblasti informačních a telekomunikačních technologií.

**Klíčová slova:**

Integrační procesy, trhy, ekonomika, telekomunikace, služby