Political and international strategies of former telecom monopolies: The Asymmetric Behaviors of Former Monopolies.

Jean-Philippe Bonardi, University of Western Ontario

Available at: https://works.bepress.com/jean_philippe_bonardi/1/
GLOBAL AND POLITICAL STRATEGIES IN Deregulated Industries: The Asymmetric Behaviors of Former Monopolies

JEAN-PHILIPPE BONARDI*
Richard Ivey School of Business, University of Western Ontario, London, Ontario, Canada

In deregulated industries former monopolies often adopt asymmetric behaviors: these firms impede the entry of foreign competitors in their home market, especially using defensive political strategies, and, at the same time, aggressively develop international strategies in foreign markets. To account for this behavior, I develop a game theoretic model involving three players: the former monopoly, its home government, and the host government of the country into which the firm wants to enter. I show first that there are in fact different asymmetric strategies that former monopolies can use in such a setting, and that a global strategy cannot always be implemented by those firms because of cooperation issues between the two governments. I also study the conditions under which these issues can be solved and show that this can happen only when the firm develops a political strategy that integrates both defensive and offensive activities. Overall, this paper therefore argues that asymmetric strategies are not always adopted to maintain monopoly rents but are also dictated by the nature of the international relationships between the governments involved.

Key words: game theory; political strategies; global strategies; deregulation

*Correspondence to: Jean-Philippe Bonardi, Richard Ivey School of Business, University of Western Ontario, London, ON, Canada, N6A 3K7. E-mail: jbonardi@ivey.uwo.ca

Received 8 March 2001
Final revision received 16 July 2003
J.-P. Bonardi

Jamison, 2001; Oh, 1996). Similar strategies seem to be currently appearing in sectors that are still in the early phases of deregulation, such as electricity generation and distribution, or postal services.\(^2\)

The second assumption often made by experts or journalists is that in spite of their willingness to expand abroad, former monopolies generally tend to impede deregulation of their home market, as well as that of markets opening to foreign competitors. Thanks to years of regulation and daily contacts with government officials, former monopolies are often considered perfect examples of companies using defensive political strategies to their advantage. For instance, Electricité de France (EDF), the French former monopoly in electricity markets, is viewed as having strongly lobbied its home government to prevent opening of its domestic market to foreign entrants, while going on an acquisition spree around Europe. As reported by the Financial Times, ‘governments and rival electricity generators say that EDF is using the unfair advantages of a protected home base to pursue its acquisitive raids into neighboring countries.’\(^3\)

Together, these two assumptions would suggest that former monopolies from developed countries tend to adopt ‘asymmetric behaviors’ in their economic and political strategies. I define asymmetric behaviors as all the behaviors integrating some international expansion on the economic side with some defensive activities on the political side (see the Appendix for a definition of the key constructs developed in this paper.) The term ‘asymmetric’ therefore refers to the fact that the firm, at least implicitly, takes divergent stances on deregulation: it opposes them in its home market, but wishes to profit from them and push them forward in foreign markets. In the example above, EDF adopts an asymmetric behavior by trying to expand aggressively in international markets while lobbying for protectionism in France.

Several comments need to be made regarding this definition. Note first that asymmetric strategies imply the integration of international activities on the economic side, and of defensive activities on the political side. Any strategy which is either only economic or only political is not considered here; neither is consideration given to strategies that focus only on domestic markets or only on international ones. The firm considers an international economic strategy but essentially lobbies its home government. Second, note that this definition does not imply that the economic and political behaviors of the firm are incompatible. Firms act this way intentionally, and the goal of this article is precisely to explore this purpose and to derive propositions that could serve as the basis for future empirical work. Similarly, I am not suggesting here that former monopolies are making a mistake by being asymmetric or that they should change this approach. I am using the term ‘asymmetric’ in a positive sense, rather than a normative one, and therefore try here to describe and explain those strategic behaviors.

A legitimate question at this point is, why would a specific theoretical treatment be needed? In effect, it seems that these asymmetric behaviors can be explained by a simple ‘monopoly rent-maximizing’ logic: former monopolies try to maximize their monopoly rent at home, while expanding abroad to profit from opportunities created by deregulation. This analysis seems to be supported by recent literature that advocates the importance of the integration of the market and nonmarket strategies of the firm (Baron, 1995, 1997). It is further supported by the international business literature, which shows that global strategies are likely to be efficient in sectors with large economies of scale and scope, when technological competition is intense (Kobrin, 1991) and when multinational firms are among the most attractive customers (Waverman and Sirel, 1997). This is in fact the case in many deregulated industries (Vietor, 1994).

However, I argue here that a specific theoretical treatment is needed because a simple monopoly rent-maximizing logic cannot cover all the dimensions of former monopolies’ strategic behaviors. Three observations need to be made. First, the monopoly rent-maximizing explanation neglects the fact that there are in fact several political strategies used by former monopolies when they adopt asymmetric behaviors, as observed by case studies (Bonardi, 1999; Derthick and Quirck, 1985; Dawson et al., 1990; Teske, 1991; Vietor, 1994). These firms admittedly try to protect their home market (purely defensive strategy) (Campbell, 1994),

---

\(^2\) For example, commenting on the acquisition by the Deutsche Post, the German postal former monopoly, of Switzerland’s Danzas Holding AG, the CEO declared: ‘Danzas will be the centerpiece of our postal service’s global strategy, and will reinforce our strong position in the world marketplace’ (in ‘Deutsche Post enters logistics field with Danzas purchase,’ Logistics Management and Distribution Report, March 1999).

\(^3\) ‘State control likely to temper EdF’s international plans,’ Financial Times, May 24, 2001.
but they are also frequently reported to combine defensive political strategies with more offensive ones (Hopper, 1994) (combined strategy—see the Appendix). One example of these combined strategies occurs when the former monopoly lobbies in favor of the entry of foreign competitors (offensive strategy), but also wishes to control this entry in terms of how many competitors are allowed to penetrate the market and what they are supposed to do. This practice is often used in foreign trade negotiations, and it leads to restrictions for foreign competitors regarding the kind of market or the part of the market they are allowed to enter, the quantity they can sell, or even the kind of customers they can target. In the electricity or the airline industry in Europe, for instance, incumbent firms have agreed on the fact that new competitors—including foreign firms—might be able to enter the market, but they have also strictly controlled the market segments that these companies would be able to target, at least for a certain time. Several behaviors might therefore be part of what I have defined as asymmetric strategies; the circumstance in which one political strategy is preferred to another one remains to be explained.

This observation leads to my next point. In effect, if one tries to account for the adoption by former monopolies of one political strategy vs. another, one has also to take governmental behaviors into account. The monopoly rent-maximizing explanation is limited here in the sense that it does not fully take into account the interactions that can occur between the former monopoly and its home government (a), as well as the interactions between the home government and the government of the host country that the firm tries to penetrate (b). For (a), it is important to acknowledge that the interests of the former monopoly and of its home government are not necessarily aligned. Governments in democratic countries often wish to support a national champion—in that case, the former monopoly—but also wish to move towards market liberalization to increase consumers’ welfare. In the case of the 1996 alliance between British Airways and American Airlines, for instance, both governments were trying to move towards the airline market opening to foreign competition. In that instance, the interests of the governments and of the national carriers were not totally aligned. Situation (b) also represents a crucial aspect since reciprocity issues are likely to occur when governments from developed countries are deregulating their home markets, while former monopolies are trying to implement global strategies (Bagwell and Staiger, 2001; Kashlak, Chandran, and Di Benedetto, 1998). In effect, global strategies demand a presence in key markets (Ohmae, 1985). In most deregulated sectors, being able to provide services in major countries in North America, Europe, and Asia is a key condition in efficiently implementing a global strategy. Hence, if all former monopolies from developed countries successfully use defensive political strategies, then many acquisitions, alliances, or direct entries into major markets are likely to be blocked by national governments (Milner and Yoffie, 1989). National governments possess many available tools with which to block alliances or acquisitions in retaliation and protect their home market if reciprocity is not assured. Among these are regulatory tools such as the necessity of obtaining a license, limits of authorized ownership by foreign actors, or antitrust judgments. Accounting for former monopolies’ asymmetric behaviors therefore requires taking into account both the interactions between the firm and its home government, as well as the interactions between the home and the host government. This aspect is not covered by the monopoly rent-maximizing hypothesis.

The last aspect of asymmetric strategies that is not directly explained by the monopoly rent-maximizing hypothesis is that former monopolies have at least one alternative to global strategies for their international expansion: multidomestic strategies (see Appendix). Yip (1989) defines a continuum of strategies, going from the multilocational to the global end. Porter also states that global strategies tend to appear when ‘a firm’s competitive position in one country is significantly affected by its position in other countries,’ and multidomestic strategies occur when a firm’s competitive position in one country ‘is essentially independent of competition in other countries’ (Porter, 1986: 18). Those are the definitions that I will adopt here because they fit well the case of deregulated industries, which are indeed network industries: telecommunications, airlines, or electricity are all

---

4 It is interesting to note that reciprocity regarding the deregulated sector is an issue in developed countries, but not in developing countries. Many developing countries have indeed decided to liberalize unilaterally (Ethier, 2001). The framework developed in this paper is therefore mainly relevant for developed countries.
based on operating a network (Henry, Matheu, and Jeunemaître, 2001). The strategic question for these firms at the international level is to decide whether or not such networks should be strongly interconnected. In the context of a global strategy, these networks would certainly be fairly integrated and therefore very dependent on each other. This is indeed the only way to provide seamless services to multinational clients. In the context of a multidomestic strategy, on the other hand, each network would be run individually in each country to provide services to local customers. For this reason I will consider here only the global vs. multidomestic alternative, even if there are arguably many other types of strategies that firms develop to expand in international markets.5

Another central aspect on which I will focus will be the consequences of this ‘global–multidomestic’ dichotomy in term of market entry. Multidomestic strategies, even if they might ultimately be inferior to global ones in the case of deregulated industries, have at least one important advantage: they do not necessitate entry into all major international markets. In the telecommunication sector, for example, being denied entry into North American markets still allows benefit from international operations in newly deregulated markets elsewhere, and especially in developing countries within which reciprocal entry is generally not a requirement. Companies that fail in their attempt to develop a global strategy might therefore adopt a multidomestic one. To what extent are multidomestic strategies parts of the asymmetric behaviors of former monopolies?

From the three points discussed above, I draw several conclusions. First, there are potentially multiple asymmetric strategies that former monopolies can adopt since they have several options on the political side (purely defensive strategies; purely offensive strategies; combined strategies) as well as on the economic side (global and multidomestic strategies) (see Appendix for definitions). Therefore, the question remains: Among the potential combinations, what are the main forms of asymmetric behaviors adopted by former monopolies? Why and when do they select one form of asymmetric behavior over another?

Second, I also derive from the former discussion that the explanatory framework built to answer these questions will have to take into account two key dimensions: (a) the interactions between the former monopoly and its home government, knowing that their interests can be (but are not necessarily) aligned during the deregulation process; (b) the interactions between the home government and the host government of the country in which the former monopoly wishes to enter in the context of its international strategy. For this reason I use game theory to study this question. Game theory is a particularly useful method for studying interactions when players’ decisions are based on selecting optimal strategies according to the interdependency of the pay-offs to the various players (Camerer, 1991; Chen and MacMillan, 1992; Ghemawat and McGahan, 1998). There is a long tradition of using game theory to analyze trade issues between governments (Brander and Spencer, 1985; Dixit, 1984; Krugman, 1986). However, despite rare exceptions, such as Baron (1997), this practice has not translated into the study of firms’ strategies.7

5 Other typologies of international strategies focus more on the organizational structures that are associated with those strategies. This is the case with the ‘transnational strategies’ that Bartlett and Ghoshal describe in Managing Across Borders (1989). I do not take this dimension into account here because it is secondary, in the case of network industries, to the interconnection decision. Global strategies require a strong interconnection of the different markets the firm operates in, whereas multidomestic strategies command that networks be run individually. The need for local responsiveness that is central in Bartlett and Ghoshal’s definition of transnational strategies is less important, in my opinion, in the case of deregulated industries. I do not claim that the ‘global–multidomestic’ is the best dichotomy whatever the context, but only that this dichotomy seems to be the most meaningful in the case studied here.

6 Game theory has been used to account for the strategies of firms in cases where well-identified players’ pay-offs depend on one another’s choices, and interdependence is crucial when trying to maximize their respective pay-offs (Ghemawat, 1997: 76; Rasmusen, 1990). Game theory has also been used to explain firms’ strategic responses to their competitors’ actions (Chen and MacMillan, 1992; Ghemawat and McGahan, 1998; Porter and Spence, 1982), to account for the development of entrepreneurial behaviors (Arend, 1999), for reputation building (Weigelt and Camerer, 1988), or for the stability of alliances (Parkhe, 1993). In the international business literature, game theory has been used to explain the decision for firms to become multinational (Graham, 1998; Veugelers, 1995) and even to show how political and legal strategies could be integrated with international strategies, as in the case of Kodak vs. Fuji (Baron, 1997).

7 Game theory has actually been widely used in the field of international economics to study questions such as ‘Should a government control access of foreign firms to domestic markets?’ or ‘Should a government promote the activities of domestic firms in global markets?’ (Krugman, 1986). Whereas these questions are important to understand the nature of the external environment of the firm, they do not focus directly on firms’ international strategies.
The simple game-theoretic model developed here generates two central results. First, I show that global strategies are unlikely to be associated with defensive political strategies, because the lack of cooperation between governments, spurred by the defensive political activities of former monopolies, actually makes global strategies difficult to implement. For this reason, the asymmetric behavior that is often adopted by former monopolies integrates defensive political activities with a multidomestic strategy, and not with a global one.

Second, I find that in some cases a global strategy can be implemented by former monopolies. However, in that case, the firm plays a second form of asymmetric strategy: a global strategy is integrated with a political strategy, combining defensive and offensive activities (combined strategy). Indeed, another kind of political strategy would threaten the collaborative relationships between the home and the host governments, and would therefore make a global strategy difficult to implement. These two results also suggest that a simple ‘monopoly rent-maximizing’ logic is inadequate to explain why and how former monopolies adopt asymmetric behaviors.

The paper proceeds in the following manner: the next section develops the basic game-theoretic model, addressing the question of the asymmetric behaviors of former monopolies. The third section analyzes the results when the game is played only once. Propositions are then derived. The fourth section offers a dynamic analysis of the model. Examples from the telecommunication sector illustrate the results. The fifth section discusses the results and concludes.

**MODEL DEVELOPMENT**

In this section, I propose a simple model in which a former monopoly needs to choose both a political strategy and an international strategy, taking into account governments’ behaviors. Three players are involved in this game: the former monopoly, its home government, and the host government—i.e., the government of the country that the firm wishes to enter. Referring to the discussion above regarding global strategies in deregulated industries, I assume that the country the firm wishes to enter is crucial to implementing a global strategy. If the negotiations among the three actors fail and the firm is thus denied entry into this crucial market, the former monopoly has to content itself with a multidomestic strategy. The game is a sequential noncooperative game with perfect and complete information, and will be analyzed both statically and repeatedly for reasons explained later.

**Basic structure of the game**

The international trade literature has been the first to make extensive use of game-theoretic models to study questions related to protectionism and reciprocity (Krugman, 1986). These models specified the utility functions of the home and host monopolies and stressed specificities of the sector studied before deriving results. These models have inspired mine in several ways. First, the trade theory literature generally assumes that governments choose policies to maximize political support (Nelson, 1988; Hillman, 1982). However, within the same country, there are often diverging interests, some favoring liberalization and others opposing it. Governments must then trade off one kind of interest against the other to maximize total political support (Rodrik, 1995). Second, most models assume that when governments determine changes in their trade policy, they cannot know what conditions will exist when those changes subsequently come into effect (Ethier, 2001). Third, most of these models look at reciprocity negotiations both as a static game and as a repeated game (Ludema, 2001), as I will do here.

One major difference between these models and the one presented here is that I add another player, one with its own strategy: the former monopoly. I assume this company’s political and economic activities have a direct impact on the political support the home government is trying to maximize. Also, I do not try to evaluate any impact the government’s choices have on public welfare, something many trade policy models are interested in.

**Sequence**

Figure 1 shows the game tree with the different players, their basic choices, the sequence of the game, and finally the pay-offs for each player. Before the game begins, the former monopoly decides to invest in an international strategy. To do so, it plans an alliance or an acquisition in a foreign country, especially one that could be the basis for a global strategy. Then the game begins like this: the former monopoly chooses...
Figure 1. The Game Tree
a political strategy, then the governments play simultaneously and decide to block or authorize the alliance/acquisition. Eventually, the firm plays again and decides to adopt a multidomestic or a global strategy for its international expansion.

I assume that the former monopoly chooses its political strategy first, and later its international strategy. The reason for this setting might seem counterintuitive, but actually suits the case of former monopolies. These firms have been operating for a long time in a very regulated sector, in which political activities were a key requirement for top managers (Vietor, 1994). These political activities therefore preexist many economic ones in those firms, especially the ones generated by deregulation such as international strategies, which are totally new to them. Besides, it is necessary for the governments to know the political strategy the former monopoly has decided to use, since these governments are very concerned with the development of the deregulation process at home. On the other hand, the former monopoly needs to know how both governments will play before choosing either a global or a multidomestic strategy.

The political strategy chosen by the former monopoly can be purely defensive, in case the former monopoly uses its long-term relationships with the national government to impede the deregulation process and delay the entry of competitors. The former monopoly can also choose between a combined political strategy, in which it mixes defensive and offensive activities, or a pure offensive strategy, in which it concentrates on accelerating the opening of its home market to favor its international expansion. A combined strategy means the former monopoly invests in pushing its national government to further deregulate some parts of the home market, but also simultaneously to block this opening on other parts. In the United Kingdom, for instance, while the long-distance telecom market was opened to full competition in 1992, the market for international calls remained a duopoly until 1996. These asymmetric regulations across markets create opportunities for former monopolies to support the liberalization of one market while playing defensive political strategies in others.

The home government and the host government can individually decide either to block or authorize the alliance or the acquisition, which also means the entry of a foreign company into their national market. But neither side knows what the other is playing since they act mainly through regulatory or antitrust judgments, which take time to be completed and which withhold information (Jamison, 1998). Former monopolies traditionally apply simultaneously in the two countries, and regulatory or antitrust reviews take place without much information exchange.

Then, the former monopoly chooses an international strategy. It can pursue a global strategy or a multidomestic strategy. As mentioned earlier, I consider only these two forms of international expansion because they have very different implications in terms of entry. A global strategy means that the former monopoly will necessarily have to enter several markets, with the firm’s competitive position in one market being affected by its competitive position in another. On the other hand, former monopolies can enter any market with a multidomestic strategy, these markets being independent on each other. Failure to enter one key market will result in a firm having to content itself with a multidomestic strategy instead of a global one. Getting the approval from the host government—which is assumed to be an important market from a developed country—is therefore crucial for the implementation of a global strategy by the former monopoly.

The former monopoly’s strategies

The former monopoly, \( m \), gets pay-offs in the game related to: \( P_G \), the profits generated by a global strategy; \( P_M \), the profits generated by a multidomestic strategy; \( P_k \), the profit generated by the entry into the other market; \( C_G \), the cost of implementing a global strategy (costs associated with the creation of a multinational network with high technology to be able to carry value-added services for multinational firms at high volumes and high speed); \( C_M \), the cost of pursuing a multidomestic strategy (costs of upgrading the existing network in a foreign country and setting up the management facilities to run it efficiently); the three potential costs of a political strategy, \( C_{\alpha1} \) (purely defensive strategy), \( C_{\beta1} \) (purely offensive strategy), and
When the firm adopts a political strategy combining defensive and offensive aspects, \( C_{\alpha} = C_{\beta} = 0 \) and \( R_{\beta_1} = R_{\beta_2} = 0 \). When the firm adopts a purely offensive strategy, \( C_{\alpha_1} = C_{\alpha_2} = 0 \), and \( R_{\alpha_1} = R_{\alpha_2} = 0 \).

I also make several related assumptions. First, I assume that the former monopoly has some power to impede the deregulation process in its domestic market, thanks to the political competencies accumulated during long periods of regulation (Bonardi and Quelin, 1998), as well as its potential role of national champion (Noam, 1992). Cawson et al. (1990) show how many European telecommunication operators have been successful in impeding the deregulation of their market and opening to foreign competition. There might be some differences across countries in terms of how powerful these former monopolies really are, but it is enough for my purpose to assume here that they have at least some power to shape the deregulation process. This implies that the more defensive the political strategy of the former monopoly, the higher the remaining rent in its domestic market. I therefore assume that \( R_{\alpha_1} > R_{\alpha_2} > R_{\beta_1} \).

If the former monopoly adopts a purely offensive political strategy, the operator knows its monopoly rent will decrease much faster. This is confirmed by several studies which have shown that when national markets have been widely opened to competition incumbents have quickly lost significant market shares, either in traditional markets such as local and long-distance calls, or in new markets such as mobile telecommunications (OECD, 1999). If the former monopoly opts for a combined political strategy, the decrease in the monopoly rent will be slower than with a purely offensive strategy, but quicker than with a purely defensive political strategy.

I also assume that profits generated by a global strategy are superior to those related to a multidomestic strategy. This assumption does not mean that these profits will actually be ultimately higher, but that they are assumed by the firm to be higher at the moment when decisions are made. This therefore matches the common belief that has developed in deregulated sectors in the 1990s: the superiority of global strategies in those sectors would stem from the fact that these deregulated industries are highly capital-intensive and that global strategies aim at offering fully integrated services to the most attractive corporate clients: large multinational firms (Hudson, 1997).

These global strategies therefore lead to the development of new organizational and technological capabilities for former monopolies, and these capabilities are likely to be rare and hard to imitate. Referring to the resource-based view of the firm (Barney, 1991), this is another reason why they should lead to high profits.

Multidomestic strategies, on the other hand, are based on the management of geographically and technologically unrelated networks around the world and target individual customers in each country separately. Multidomestic strategies do not require strong development of new organizational and technological capabilities and are therefore often considered less promising than global strategies for major actors (Jamison, 1998). For this reason, multidomestic strategies are generally perceived as inferior to global strategies in deregulated industries. For all the reasons above I assume that

\[
P_G - C_G > P_M - C_M + R_x \text{ with } x \in \{\alpha_1, \beta_1, \alpha_2 \beta_2\}
\]

The home and the host governments’ strategies

\(H\) is the home government and \(F\) is the foreign government. As mentioned earlier, the model is
developed to consider the case of former monopolies in developed countries, and therefore democratic institutions. Each government’s pay-offs depend on the political benefits generated by one choice or another (either to block or not to block the international alliance initiated by the former monopoly). $P_X$ (with $X = H, F$) is the political benefit gained by the government if the domestic market remains protected. This political benefit is dependent on the magnitude of national interests, and on their capacity to organize effectively (Krasner, 1978). In the case of deregulated industries, these interests are generally numerous but also depend greatly on the former monopoly position. Thus these interests will be much more powerful in terms of political influence if the former monopoly organizes and crystallizes the various interests (Derthick and Quirck, 1985; Vietor, 1994). $P_X$ is the benefit gained by the government if the foreign market is opened to the national operators. This benefit in deregulated sectors often depends on the intensity of the lobbying implemented by potential new entrants (Glaser and Konrad, 1995), and on the international pressures coming from other political actors and past commitments in institutions such as the WTO (Ludema, 2001).

In the case of the home government, I assume that pay-offs are partially dependent on the former monopoly’s political strategies. This is derived from the argument that the former monopoly is not the only actor to lobby the home government, but is certainly the most powerful because of its importance as a national champion and as a large employer (Cawson et al., 1990; Marcus, 1984). The position taken by the former monopoly can then considerably inflate or deflate the position advocated by other actors (Bonardi and Quelin, 1998). To take this into account in the model, I consider that, if the former monopoly plays a purely defensive strategy, then the coefficient $\alpha_1$ is associated with the political benefit generated by the protection of the market ($P^H_P$). In that case, $\beta_1 = 0$, i.e., I make the assumption that the former monopoly can annihilate the efforts of political interests opposing protectionism if this firm decides not to support them. Similarly, if the former monopoly plays a purely offensive strategy, then $\alpha_1 = 0$, and the coefficient $\beta_1$ is associated to $P^H_O$. Finally, if the former monopoly plays a combined political strategy, then $\alpha_2$ and $\beta_2$ are associated respectively with $P^H_P$ and $P^H_O$ (with $\alpha_2 > 0$ and $\beta_2 > 0$), but both with inferior intensity than with a purely defensive or offensive political behavior since the firm dilutes its lobbying efforts. Therefore, the home government pay-offs are defined by:

$$\pi^H = \begin{cases} 
\alpha_1 P^H_P & \text{if the former monopoly plays a purely defensive political strategy} \\
\alpha_2 P^H_P + \beta_2 P^H_O & \text{if the former monopoly plays a combined political strategy} \\
\beta_1 P^H_O & \text{if the former monopoly plays a purely offensive political strategy}
\end{cases}$$

with $\alpha_1 P^H_P > \alpha_2 P^H_P$ and $\beta_1 P^H_O > \beta_2 P^H_O$.

The host government pay-offs are:

$$\pi^F = P^F_P + P^F_O$$

For both governments, $\pi^X$ ($X = H, F$), $P^X$ if the authority’s own market has been opened to foreign competition and $P^X$ if the other authority’s market has not been opened to foreign competition. Each government would like its national operator to gain access to the other’s market. $P^X$ is the benefit for each government related to the fact that the other government’s domestic market is open. In that case, the former monopoly can penetrate this market.

I also assume that the governments’ benefits of opening foreign markets to competition are higher than those related to protecting domestic markets. This assumption comes from the fact that the government might also want to maximize the sector’s overall development and hence promote some competition within the sector. This is likely to be supported by many actors, including consumers, but also by institutional organizations in which most of the developed countries sit. For instance, the fact that telecommunication was a key aspect of the WTO negotiations certainly played an important role in the decision by various authorities to favor foreign entries in this sector. Therefore, $P^X_o > P^X_F$.

**RESULTS OF THE STATIC GAME**

I first study a situation in which the game is played only once, i.e., no repeated interactions among the governments occur. Even if the model does...
not have a true ‘prisoner’s dilemma setting,’ the same intuition can be used here. In the situation described above, both governments play simultaneously and could achieve a pareto-superior outcome if they decide to cooperate, i.e., to approve the strategic alliance or acquisition and thus contribute to open national markets to foreign competition. A pareto-dominant outcome refers to a situation that cannot be improved without negatively affecting the situation of one player in the game. Here, each government would be better off opting not to block the alliance (or the acquisition) that drives the global strategy of the former monopoly. However, each fears that the other could decide to block this alliance, and would thus reap all the related political benefits and more. In that case, cooperation will not be achieved, and a noncooperative solution will be the result of this game.

In game theory, a Nash equilibrium is obtained if, for all players, the optimal response to the current move of each player is to stand still. An equilibrium, in that respect, is a stable solution in the conditions of the game (Rasmusen, 1990). For similar reasons to those existing in a prisoner’s dilemma game, the only Nash equilibrium obtained in the game presented here (noted (2) in Figure 1) is as follows:10

- the former monopoly chooses a purely defensive political strategy on its home market;
- each government chooses to block the global alliance or acquisition;
- then, the former monopoly chooses a multidomestic strategy for its international expansion.

This result supports the idea that, when deregulation occurs, the lack of cooperation among governments tends to make global strategies very difficult to implement. In this setting, even if a global strategy is expected to be the most profitable for former monopolies, this result will not necessarily be achieved, and these firms will adopt a multidomestic strategy. They will also integrate this multidomestic strategy with a continued defensive political strategy in their home market. Proposition 1 follows from this analysis.

Proposition 1: When there is only one round of interaction between the players, even if the profits expected from a global strategy are superior to those from a multidomestic one, former monopolies are unlikely to implement global strategies for their international expansion because of the difficulty of achieving cooperation among the governments involved.

Proposition 1 implies that the profits expected from a global strategy are not a sufficient condition for such a strategy to be implemented by former monopolies. Empirical studies in the telecommunication sector tend to confirm that this prevalence of global strategies is not really happening. In the data provided by Sarkar et al. (1999), for instance, less than 10 percent of the international projects identified by the authors are clearly part of the creation of a global network. If we factor in some other related activities, such as the creation of value-added network services, the number increases to 16 percent. On the other hand, activities that are clearly related to multidomestic strategies amount to 38 percent. In the same way, another set of data shows that 48 percent of these projects are implemented in developing countries and are therefore likely to be related to multidomestic strategies.

Looking at specific cases instead of at industry-level data provides similar insights. Global alliances have proven to be difficult to implement (Jamison, 1998; Waverman and Sirel, 1997). Also, many operators have chosen to adopt a multidomestic strategy as a vector of international expansion and to combine this strategy with defensive political activities in their domestic market. Good examples are the Baby Bells—the U.S. regional telephone service providers—who have expanded in many markets without launching into a global strategy, while still maintaining their monopoly on local communications in their home market.

Our framework also sheds light on the political strategies that are most likely to go along with the

9 See Rapoport and Chammah (1965) for a presentation and discussion of the prisoner’s dilemma.
10 Proof can be easily derived from Figure 1 by backward induction. Solutions 3–8, 11–14, and 19–22 will be ruled out by one government or the other because they all generate a 0 pay-off for one of them. Solutions 15, 16, 23, and 24 are also ruled out because of the prisoner’s dilemma setting of the game between the two governments. In effect, those solutions would require the governments to cooperate (on the ‘not block’ option), but the simultaneous game makes it so that a government making this decision never knows what the other will play and will therefore expose himself to the other government’s opportunism. Remaining solutions are 1, 2, 9, 10, 17, and 18. Among those, because of the assumptions made in the previous two pages, the best solution for the former monopoly, and the unique Nash equilibrium in that game, is 2.

former monopolies’ international expansion. Following the equilibrium identified above, I propose

Proposition 2: When there is only one round of interactions between the players and because of the difficulty of achieving cooperation, former monopolies will implement an asymmetric strategy integrating a multidomestic strategy with a purely defensive political strategy precluding entry of foreign competitors.

This result sheds some new light on the asymmetric nature of the strategic behavior of former monopolies. Even if they chose to play a more offensive political strategy to foster deregulation in their home market and facilitate the entry of foreign competitors, such a move would not allow them to develop a global strategy. Former monopolies just keep blocking the entry of foreign competitors through a purely defensive political strategy because no better opportunity is available. This asymmetric behavior thus corresponds only to a second-best solution for a former monopoly in the game since it cannot implement the most attractive global strategy. Whereas many observers argue that former monopolies are in a ‘win–win’ situation with their political and international strategy, it appears that this asymmetric behavior is one that these firms choose by default.

Telefonica, the Spanish telecommunication operator, is an example of this situation. The firm maintained purely defensive political activities and a dominant position in its home market, and simultaneously developed an aggressive multidomestic strategy in Latin American countries. However, Telefonica has also tried several times, without much success, to develop a global strategy. In 1994, for instance, the firm announced that it was to become part of the Unisource consortium, itself a partner of WorldPartner created by AT&T. European and American regulatory authorities launched an investigation into this move by Telefonica. Karel Von Miert, from the European Commission, soon announced that he would not authorize such a move by Telefonica as long as Spain would not be fully opened to competition. The U.S. authorities did the same. Cooperation seemed very difficult to achieve. The Spanish operator finally renounced this alliance and announced in 1998 its intention to enter Concert, the global alliance created by BT and MCI. Again, this move would fail, forcing Telefonica to concentrate entirely on its multidomestic strategy and to maintain defensive political activities in Spain all along.11

ACHIEVING COOPERATION AMONG GOVERNMENTS

It is now interesting to study the conditions under which a pareto-superior outcome could be reached in this situation, i.e., the two governments would decide to allow market entry and the firm would invest in a global strategy. To study the outcome, one has to solve the prisoner’s dilemma depicted in the game between the two governments. One important result of noncooperative game theory is the ‘folk theorem’ (Aumann, 1981), which states that, under certain conditions regarding the players and if the game is played repeatedly, players involved in a prisoner’s dilemma game might choose to cooperate with one another rather than maximize their self-interest narrowly. In order for this to happen, three conditions must be in place. One is exogenous to the game, and the two others are endogenous. The key exogenous condition is that the game must be repeated indefinitely or that players do not know the number of subsequent periods. Hence, if any player deviates from the cooperative outcome at this point, assured future punishment of that player by the other players will offset any current gains from deviation (Gibbons, 1992).12 Two endogenous conditions are then important: first, the punishment must be assured and sufficiently dissuasive for the deviant; and second, it must be in the interests of the nondeviant player to execute the punishment. If, as in Friedman (1971), we assume that players do not discount future pay-offs, then the punishment is simply for the nondeviant player to move to the noncooperative Nash equilibrium. Any move away from the cooperative solution by one player will then bring the game back to a noncooperative (and thus suboptimal) outcome.

11 This defensive political strategy translated into several regulatory measures protecting the former monopoly from new entrants. One of the strongest was a derogation obtained by the Spanish government from the European Commission to liberalize its national telecom market only in 2003 vs. 1998 for most of the other EU members. Severe conflicts between the company and the Spanish regulatory authority from 1997 to 2000 also indicate the defensive nature of Telefonica’s political strategy in its home market.

12 Conversely, if the game is played repeatedly but the number of periods is finite, then the repeated game has the same Nash equilibrium as the one in the stage game (Gibbons, 1992: 84).
I apply this folk theorem to my game, and specifically to the governments’ behaviors. I first investigate the exogenous condition, and then I move on to the endogenous ones. One must first investigate the conditions under which this game might be repeated indefinitely or without the players knowing how many times it will be played. This condition is exogenous since it does not depend on how the players behave, but only on the context of the game. The previous section showed that the situation studied in this paper could generally be considered as a static game: the firm attempts to make an alliance or an acquisition in a foreign country, and the two governments must decide whether to authorize this strategic move or to block it. However, there might be some cases in which the situation will be repeated. This happens especially if a firm knows that it will have to reapply or renew its authorization in the future and therefore deal several other times with the two governments. My game does not allow formal identification of the conditions under which this will happen since I have made no modeling assumptions about the way governments in the home and host countries were able to regulate or re-regulate the relevant markets. I will discuss that further in the section devoted to avenues for future research.

Nonetheless, I can point out some situations in which this game could be repeated. These will probably depend greatly on the institutional characteristics in the home and the host countries. For instance, does each government have the power to restrict ownership or cross-ownership from a foreign firm into the national firm? If so, then subsequent rounds of negotiations will probably be necessary for the firm to obtain significant ownership and fully develop its global strategy. The situation described in the model will therefore be repeated, without the players knowing exactly how many times this repetition will occur. Similarly, does each government have to impose a time limit on the firm’s investment? This is the case, for instance, when governments grant licenses to operate in deregulated markets. These licenses have a time limit, and therefore assure that the game will be repeated. Another example refers to the potential role of antitrust authorities in each of the two countries: do these authorities have enough power to control ex post the former monopoly’s international investment? If this is the case, the game might again be repeated, whatever the result of the first round, and therefore create some possibilities of retaliation in the case of a breach of cooperation. Thus, there are several situations in which the game presented here might finally become a repeated game.

Proposition 3: One necessary condition for former monopolies to implement global strategies is that the interactions with the home and the host governments must be repeated indefinitely or must be repeated with an uncertainty about the number of rounds that will take place.

The case of the international strategy of France Telecom (FT) and Deutsche Telekom (DT) illustrates Proposition 3. The two operators individually began investing abroad in the early 1990s, mainly with a multidomestic strategy focused on Eastern Europe and Latin America. In late 1993, however, they announced their intention to jointly purchase 20 percent of Sprint, the third largest U.S. long-distance operator, for US$4.2 billion in order to form a global joint venture called Phoenix (later renamed Global One). The alliance needed the regulatory approval of the European Commission responsible for competition policies and of the American authorities, mainly represented by the FCC. The alliance with Sprint would open the doors of the U.S. market to FT and DT. The governments of the two countries were eager to support their national operators to transform them into international champions, able to compete in the future against American and Asian operators in global telecom markets. Therefore, there was intense pressure from the two national governments, directed towards the European Commission, not to block the alliance.

The EU had already taken numerous steps to liberalize the telecommunications sector, and intended to maintain these efforts to boost and coordinate deregulation in the European countries. This provided an incentive for the European Commission to use the alliance to facilitate the opening of the French and European markets—a move that should not, however, have been a cause of competitive disadvantage for European operators. Obtaining reciprocal access was then warranted. The U.S. authorities had similar concerns, willing to support Sprint, but also wanting to obtain reciprocal access in Europe for all U.S. operators.
Sprint’s primary competitors in long-distance services, AT&T and MCI, expressed vigorous opposition to the arrangement in a formal filing to the FCC and in public statements (Communications Daily, 1994, 1995).

For those reasons, an agreement between authorities was difficult to achieve. Both the European and U.S. authorities were reviewing the conditions of the alliance among the three operators, but there was no simple solution. However, in 1996, i.e., more than 2 years after its announcement, the alliance was finally accepted both by the European Commission and the FCC. This came about through the development of collaborative agreements between the two authorities, followed by FT and DT, who finally decided to relax their purely defensive political action (Pearce, 1995), as exemplified by the fact that European governments voted in favor of all telecom markets being opened to competition by January 1, 1998. The expectation by all the players that the game would have to be repeated certainly played an important role in this surprising outcome. Indeed, at least two things guaranteed that the situation at hand would be repeated several times in the future. First, the alliance that both authorities were willing to consider was a very limited one, with only a small part of Sprint equity being acquired by the European operators. Similar authorizations would therefore be required in the future to reinforce this alliance in the context of global expansion. Second, both the FCC and the DGIV of the European Commission would still be the authorities authorizing or blocking later strategic moves by the firms. This guaranteed that there would be subsequent periods with the same players involved in the game, and therefore that retaliation was possible in the near future.

Assuming the game will be repeated indefinitely, I can now study the endogenous conditions under which a collaborative solution might occur. In my game, the folk theorem applies if, in response to a government decision to break collaboration (i.e., to take regulatory measures that will harm the global strategy of the former monopoly), the nondeviant government decides to block deeper entry in subsequent moves. This pay-off depends on the political strategy played by the former monopoly. In effect, if the former monopoly plays a purely offensive strategy, then \( z = 0 \). There can be only a subgame perfect retaliation, and consequently a global strategy for the former monopoly, if this firm does keep a certain degree of defensive political activity in the subsequent periods.

The second condition of the folk theorem requires us to look at the consequences of the nondeviant government’s reaction as they affect the deviant government. In effect, the former will have an incentive to keep a collaborative solution only if, as a consequence to the latter’s reaction, its lost profit will not exceed the profit related to its previous deviant move. This is the case if

\[
0 < z P^H_p < y P^H_o \quad \text{with} \quad z \in [\alpha_1, \alpha_2] \quad \text{and} \quad y \in [\beta_1, \beta_2]
\]

In that case, the conditions of the folk theorem are met because the counter-reaction by the nondeviant government is a sufficiently credible one in the event that the other government body decides to break collaboration. Again, this condition depends on the political strategy chosen by the former monopoly. First, this strategy cannot be purely defensive since offensive aspects are warranted to achieve the inequality displayed above (\( y P^H_o \) needs to be positive). In the context of my game, one necessary condition is therefore that the former monopoly must play a combined political strategy. For the reasons explained above, neither a purely defensive nor a purely offensive strategy would satisfy the conditions of the folk theorem. This implies that when the game meets the conditions of repetition underlined above, the only solution for the game is (noted (15) in Figure 1) as follows:

- the former monopoly chooses a combined political strategy;
- each government chooses not to block the global alliance or acquisition;
- the former monopoly adopts a global strategy for its international expansion.

From that, I derive:

Proposition 4: Assuming that the benefits expected from a global strategy are superior to those expected from a multidomestic one and that the
condition described in Proposition 3 holds, former monopolies will implement an asymmetric strategy integrating a global strategy with a combined political strategy.

The analysis of the game, however, can be pushed even further. In effect, the inequality above also contains a more precise condition with respect to how the former monopoly will have to play this combined political strategy. With a combined political strategy, the inequality becomes $0 < \alpha_2 P^H_p < \beta_2 P^H_o$. This implies that $\alpha_1 < \beta_2 (P^H_o / P^H_p)$, which means that in the context of its combined political strategy the former monopoly will have to reduce its defensive efforts and increase its offensive efforts up to a certain point; this point depends on the relative political forces in favor of or against industry protection in the firm’s home country (the $P^H_o / P^H_p$ ratio). The higher the political interests supporting protectionism ($P^H_p$), and the lower the political interest supporting liberalization ($P^H_o$), then the higher the intensity the former monopoly will have to place in its offensive political activities ($\beta_2$) compared to its defensive political activities ($\alpha_2$). Therefore I propose:

**Proposition 5:** When the former monopoly implements an asymmetric strategy integrating a global strategy with a combined political strategy, the relative intensity of defensive vs. offensive political activities depends on the nature of the political support in favor of or against protectionism in the firm’s home country.

Again, these two propositions shed new light on the asymmetric behavior of former monopolies. Whatever happens, a purely offensive political strategy cannot take place since maintaining some defensive political activity is the only way to guarantee credible retaliation in the subsequent rounds of the game. Since some offensive activity is also necessary, it is a combined strategy that will be favored by the former monopoly. It is important to note that the choice of this combined political strategy is not directly related to the willingness of the firm to maintain a monopoly rent, but rather to the characteristics of the governments’ strategies as well as the nature of the game that is played. If there are strong opposing interests in the firm’s home country, the former monopoly has to develop a more aggressive strategy, for instance by taking stronger positions in favor of liberalization.
had to be approved by European authorities, who were being lobbied by France Telecom or Deutsche Telekom, BT’s major competitors. The European Commission also argued that there could be some antitrust abuses; for instance, an abuse of dominant position since BT was still dominant in the United Kingdom.

In spite of these issues, the deal was finally accepted in July 1994, both by English and American regulatory authorities. A key point of this outcome was not only the expectations from the players that the situation would be repeated in the future, but also BT’s final choice of a political strategy in its home market. BT maintained a relatively defensive strategy in its home market, especially regarding the entry of American competitors in the cable sector, which was viewed by authorities as the best way to generate competition in the market for local calls. However, this strategy was only slightly defensive, and BT was also lobbying hard in favor of deregulation and market openings in the telecommunication sector. As argued by Proposition 5, BT probably adopted this more offensive political strategy to cope with the political climate in its home country, especially to temper Mercury’s behavior, the second entrant in the British market, who was publicly taking a much more defensive stance. This led to a situation where the new entrant was playing a very offensive political strategy, whereas the former monopoly appeared as a real supporter of further liberalization (Bonardi, 1999).

DISCUSSION AND CONCLUSION

Despite the simplification that is required in a formal analysis and the loss of elements of reality that comes with that simplification, the game-theoretic model developed here provides important insights to study the international and political strategies of former monopolies. First, why do former monopolies adopt asymmetric behaviors? I have defined asymmetric strategies as those behaviors that integrate a defensive political strategy at home, with an offensive international strategy abroad. One of the contributions of this model is to explain why former monopolies always maintain some degree of defensive political activities as part of their strategies. I show that, in the context of an international strategy during deregulation, an offensive political strategy cannot be an option for those firms. Even if they want to implement an aggressive global strategy on the economic side, they have to maintain some defensive aspects on the political side. My explanation therefore goes further than a simple ‘monopoly rent-maximizing’ argument because it explains not only why asymmetric strategies are observed, but also why purely offensive political strategies are ruled out.

Second, which types of asymmetric behaviors do former monopolies adopt? The model developed here suggests that asymmetric strategies can take two forms. The first type integrates a multidomestic strategy on the economic side and a purely defensive political strategy. The second type integrates a global strategy and a political strategy combining defensive and offensive aspects. These asymmetric behaviors of former monopolies occur in different situations and for different reasons, and are therefore erroneously blended by most observers. Besides, the strategy that is often assumed to be the winning one—a global strategy on the economic side and a purely defensive strategy on the political side—is in fact not an option for these firms. My approach therefore questions something that is taken for granted by many observers of deregulated markets.

A third implicit question follows: Why are former monopolies picking one asymmetric strategy over the other? I show that multidomestic activities are integrated with defensive political activities when the home and the host government cannot find a way to collaborate and to solve reciprocity issues, thus pushing those governments to block the alliances, acquisitions or direct entry in major developed countries that would be the basis for a global strategy. Because their entry into major developed markets is blocked, former monopolies cannot implement global strategies as they wish, and finally tend to develop multidomestic strategies.

On the other hand, there are some cases in which the cooperation problem between governments might be overcome. If a potentially infinite repetition of the interactions between the governments involved in reciprocity relationships occurs, and if each government has an incentive to retaliate against the other’s breach of the trust, cooperation might then arise between the governments, making a global strategy possible for the former monopoly. This also requires a different political strategy from the purely defensive one that former monopolies
developed in the previous case. Former monopolies, to gain acceptance for their global strategy, must implement a combined political strategy, i.e., a strategy in which they spend resources to get their home market protected and to get support to open up other markets. In that case, the role of the defensive political strategy focuses less on protecting the remaining monopoly rent; rather, it focuses on trying to make the global strategy possible by supporting the home government’s incentive to retaliate against the other government in case of a breach in cooperation. Again, the mechanisms that lead to the adoption by former monopolies of one asymmetric behavior or another are therefore quite complex, and go beyond a simple ‘monopoly rent-maximizing’ logic that people generally use to account for these firms’ behaviors.

This paper makes several contributions. First, it suggests that the strategy of former monopolies or deregulated firms should be a research subject by itself, and not only an empirical field to test theories about strategies or competitive advantage in a changing environment. In spite of few isolated attempts (Mahon and Murray, 1981; Russo, 1992; Vietor, 1994), the analysis of former monopolies or highly regulated firms operating in a market being deregulated has not been considered so far as a field of research by itself. Many researchers have used deregulated markets empirically to test theories (Gimeno, 1999; Pettus, 2001; Smith and Grimm, 1987), but few have been made to explain specific phenomena regarding these firms. The crucial result of this paper, in that respect, is that one cannot understand the economic strategies of former monopolies if one does not also take into account the related political strategies. These firms have generally gone through such long periods of regulation and relationships-building with government authorities that these relationships become a crucial part of their activities.

Another related contribution of this paper is to show that this integration of economic and political activities was not only true at the domestic level, but also when it comes to former monopolies’ international strategies. At the international level, these firms’ political strategies have limitations related to the fact that not only the home government but also the host government plays an important role. And a former monopoly is not as effective at lobbying a foreign government as it would be at lobbying its own government. However, in spite of those limitations, political strategies still remain a key part of these firms’ behaviors, and they give birth to the asymmetric behaviors underlined by many observers and specifically studied in this paper.

Much work remains to be done on the analysis and understanding of the integration of economic and political activities within this specific kind of organization. An initial task would be to try to test the theoretical framework developed here. Because of the small number of global ventures developed so far in each deregulated industry, general testing of the theory might imply cross-industry studies. Deregulation in the airline and telecommunications industry has indeed already given birth to its own debates about global vs. multidomestic strategies (Crystal, 1999); other network-based sectors that are being deregulated, such as electricity or even rail transportation, should follow the same path. This might create some interesting opportunities for empirical research. This would be a challenging task, however, since finding common measures for those sectors might be difficult. But it would be a worthwhile study since the implications for both future research and policy-making are important. At a time when markets are being deregulated but no one really knows how they should be so, looking at these questions by integrating the international dimension seems crucial. Research and policy-making have probably remained too focused on domestic cases on this issue, whereas this paper shows that international aspects are crucial as well.

Another way to test the robustness of the argument presented here is to enhance the consideration of how institutional mechanism leads to governments’ decisions. This paper presents a simple situation in which the firm deals with a home government and a host government, but does not go deeper into the institutional differences between these two countries. Governments are considered as black boxes in this game, whereas many underlying institutional characteristics are in fact guiding their decisions. Going deeper on that dimension would allow us to be more precise regarding the exogenous conditions in which the game might be repeated or not. As noted earlier, one limitation of this game is that it is not able to formally identify these conditions. Further research on this institutional dimension is warranted here.

Similarly, it would be interesting to better understand the role played by international institutions such as the World Trade Organization (WTO), the...
European Union (EU) or NAFTA in such situations. In the current paper, in effect, I do not formally study the institutional game that might occur between these international authorities and the home and host governments. One might speculate on how those international institutions would change the results of this paper. One way to analyze this is to consider that those institutions have been designed to facilitate the development of cooperation among countries regarding trade barriers. This cooperation is central in my game to reach a pareto-optimal outcome. From that point of view, trade institutions should create incentives for former monopolies to adopt global strategies and to relax their defensive political strategies.

However, does it imply that political strategies will totally disappear in the context of deregulated industries—which would mean that the issues discussed in this paper would disappear as well? Existing literature on international trade in fact shows the opposite. It has been frequently pointed out, in fact, that even with trade institutions such as the WTO or the creation of free-trade zones such as the EU, domestic political interests keep playing a key role (Ethier, 2001). This will also be the case in deregulated industries. Future research should therefore try to extend the approach developed here by better taking into account international institutions and their influence on governments’ decisions, but should also acknowledge that domestic political interests and defensive political strategies will keep playing an important role and will have an important impact on firms’ overall strategies.

From a different perspective, this paper also provides some insights in terms of public policy. One question that remains to be addressed for policy-makers, in effect, is related to the nature of the deregulation process: Are we attending an internationalization of deregulation pushed by the globalization of deregulated industries, or is it still essentially a domestic phenomenon that policy-makers have to deal with in the context of their own country? Can deregulation processes be stopped or impeded by national interests? The present paper does not directly answer these questions but provides some food for thought. In effect, if deregulation becomes an international process, this will probably be followed by a willingness of former monopolies to profit from the globalization of their industry. I show in this paper, however, that those firms’ behaviors are often ambiguous and that it is only under certain specific conditions, and still with limits, that former monopolies’ strategies clearly contribute to the international diffusion of deregulation processes and partially renounce to block deregulation in their domestic markets. This idea reflects previous works on globalization, which stress that the structure of the international trade system does not push towards pure free trade (Yoffie, 1993), but rather towards ‘pragmatic liberalization,’ i.e., a system in which governments try to maintain liberal trade policies while also responding to the needs of powerful domestic interest groups (Lenway, 1985). Since governments are the subjects of such diverging pressures, it is in fact natural to see firms developing political strategies accordingly (Milner and Yoffie, 1989).

In a related topic, this paper also contributes to the discussion concerning the relevance of global strategies. I show here that the benefits related to a global strategy are not necessarily a sufficient condition for firms to adopt them. This result makes a contribution to the literature on global strategies, which has remained focused on a discussion of their pros and cons. It also suggests the possibility for firms to develop strategies that are in fact hybrid forms between global and multidomestic. Governments play an important role in the adoption of a global strategy, as well as in the selection of a global strategy, a multidomestic strategy, or some other kind of strategy. This insight supports the analysis of several authors in the international business literature (Doz, 1986), but has not yet inspired much research. This paper therefore complements previous studies that tend to stress the difficulty of achieving global strategies or the overstated profits that they generate (Ghemawat and Ghadar, 2000; Krugman, 1986).

More generally, this paper makes a contribution to the corporate political strategy literature. The game analysis shows that neither the rent nor the costs of a political strategy really matter in the choice of one political strategy vs. another. This is an interesting finding since the corporate political strategy literature (Hillman and Hitt, 1999), following the economic literature, generally argues that a firm adopts a political strategy depending on its costs—especially information and organization costs (Lenway and Rehbein, 1991; Masters and Keim, 1985)—or on the potential rent that this political strategy might generate (Stigler, 1971). What then determines the choice of a political strategy in the model developed in this paper? The answer is the capacity of the political strategy to...
complement the firm’s economic strategy (in that case, the firm’s international strategy).

Another very interesting aspect of the results obtained in this paper is that they show not only the importance of political activities in the general strategy of the firm, but they also demonstrate that there is some real value to combining different political tactics. In a recent article, Schuler, Rehbein, and Cramer (2002) investigate this question empirically and find that firms do indeed mix different political tactics. The emphasis on combined political strategy in this paper reinforces this idea, and also goes one step further in formally identifying how defensive and offensive political activities might be combined. I show here the importance of the political climate in the firm’s home country, i.e., the relative magnitude of political interests in favor of or against liberalization. Schuler et al. found a somewhat similar result, providing evidence that political rivalry in the firm’s industry had a positive impact on its likelihood to combine political tactics. Future research should continue to explore the importance for firms of combining political tactics.

On a related plane, the most interesting implication of this study is to further push the concept of integration of economic and political strategies proposed by Baron (1995, 1997). This study is indeed one of the first attempts to not only describe how integrated strategies might be beneficial in regulated—or deregulated—markets, but also to identify several potential integrated strategies and explain why certain ones might prevail over others. The approach proposed in this paper might create some opportunities for further research in this field since it would seem that, while the notion of integration is now widely accepted in the literature, it mostly remains a black box. Hence, it is only by clarifying and challenging this notion, as well as by determining its limits, that integration might become an operational concept for the strategy literature.

This paper not only challenges the notion of integration as it exists in the literature but also reinforces it. In the analysis of the repeated game, it appears that the firm optimally adopts a political strategy that combines defensive and political dimensions. Hence, this choice cannot be understood if it is isolated from the choice of an international market strategy. The firm chooses a political strategy not for its own sake, but for integrative purposes. How can this result be extended from the case of former monopolies to the case of other firms? This question remains a theoretical and empirical challenge for researchers in this field.

REFERENCES

Global and Political Strategies in Deregulated Industries


Parkhe A. 1993. Strategic alliance structuring: a game theoretic and transaction cost examination of interfirm


APPENDIX: DEFINITION OF THE MAIN CONSTRUCTS

**Asymmetric behavior**: a behavior that integrates a strategy of international expansion on the economic side with a defensive political strategy in the firm’s home market.

**Multidomestic strategy**: a strategy in which the deregulated firm expands into various international markets with one specific strategy for each market, and with the purpose of providing services to local customers. Competition in each market is therefore independent of competition in other countries.

**Global strategy**: an internationalization strategy in which the deregulated firm interconnects its different networks to provide seamless services to multinational customers. Entry into these customers’ main markets is therefore crucial for the implementation of a global strategy.

**Defensive political strategy**: a firm’s political strategy that aims to keep its home market protected (or as protected as possible) from foreign competition.

**Offensive political strategy**: a firm’s political strategy that aims to keep towards opening and liberalization of its home market.

**Combined political strategy**: a firm’s political strategy that aims to get controlled market liberalization and opening to foreign competition. This political strategy therefore combines offensive aspects since the firm lobbies in favor of further liberalization, but also defensive aspects since it also lobbies to maintain certain regulatory controls.