

The Organisational Structure of Telecommunications Companies

Case study: The OTE Group

Madelaine Pepenel

"Constantin Brâncoveanu University" of Pitești, madelaine_pepenel@yahoo.com

Ioana-Iulica Voicu

"Constantin Brâncoveanu University" of Pitești, ii_voicucb@yahoo.com

Abstract:

Transnational corporations today are proving to be an important driver of the world economy. In turn, companies that offer mobile communications services have become important means to build bridges between people and between companies, regardless of their location. To maintain optimal functioning of these organizations, a strong and also flexible "backbone" is needed. A transnational company that is important to the Balkan region, operating in the telecommunications area, is the OTE SA company, based in Greece. The company formed together with its subsidiaries the OTE Group. The OTE Group carries out activities in Romania through the mobile subsidiary Cosmote Romania, which was imposed in our country as a major mobile operator.

Keywords: Transnational company, telecommunications services, mobile communications.

JEL classification: A10; E00; F23.

1. Introduction:

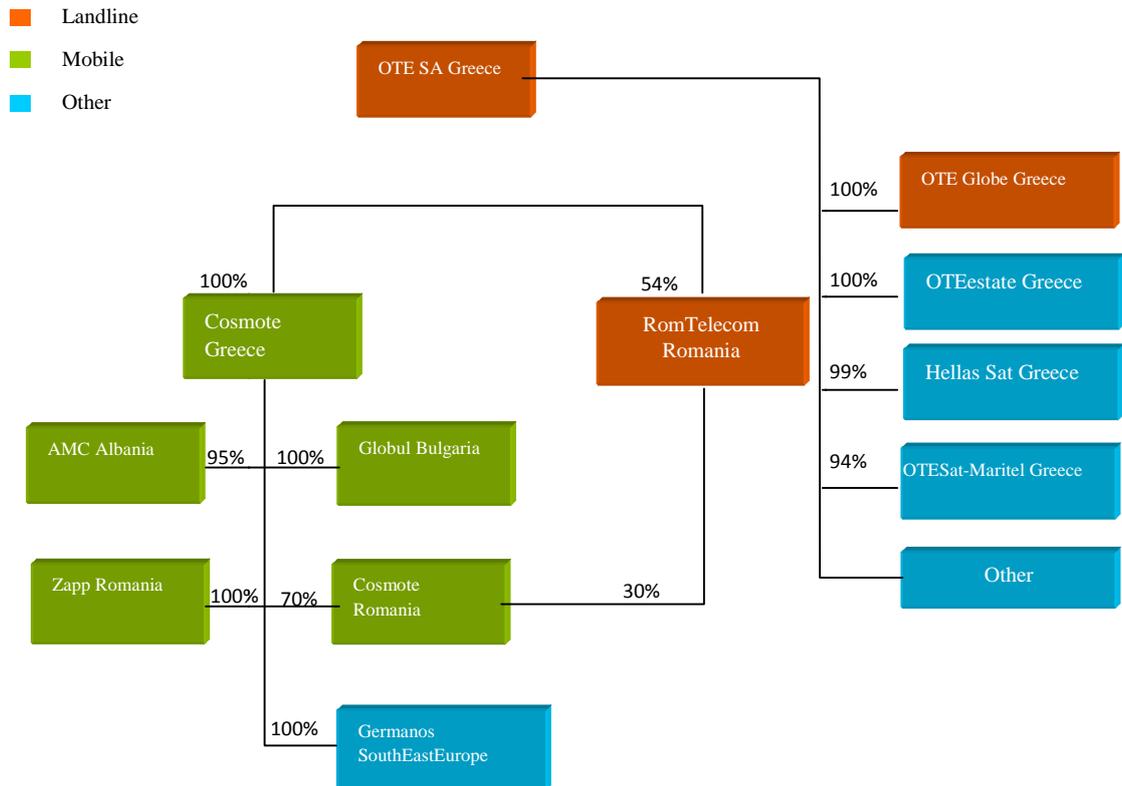
Group structure and organization of OTE Telecommunications Company

Hellenic Telecommunication Organization SA (OTE SA) is a traditional supplier of telecommunications services in Greece, which forms, together with its subsidiaries, one of the leading telecommunications companies in South East Europe - OTE Group. The group provides fixed telephony services, broadband Internet, data transmission, leased lines and mobile services in Greece, Romania, Albania and Bulgaria.

OTE Company SA holds 54% of the shares of RomTelecom, the incumbent telecommunications operator in Romania, providing services through fixed line (voice, broadband Internet, leased lines) and Satellite TV Service, as shown by Figure no. 1 below.

The OTEGlobe SA operates in the same fixed line telecommunications subsidiary, which specializes in the provision of wholesale international telecommunications carriers and large multi-site organizations in Southeastern Europe. OTEGlobe operates two high-capacity optical networks, stretching from Greece to Western Europe.

Figure no. 1. OTE Group Structure



Source: OTE S.A., *OTE Corporate Presentation, May 2010*, p. 5

Historically speaking, fixed telephony services formed the nucleus on which OTE Group was built. Fixed telephony services in Greece are conducted by the OTE SA company (founded in 1949), which is also the parent of OTE Group. Figure no. 2 presents the main brands of fixed-telephony services belonging to OTE Group.

Figure no. 2. OTE fixed-line operators



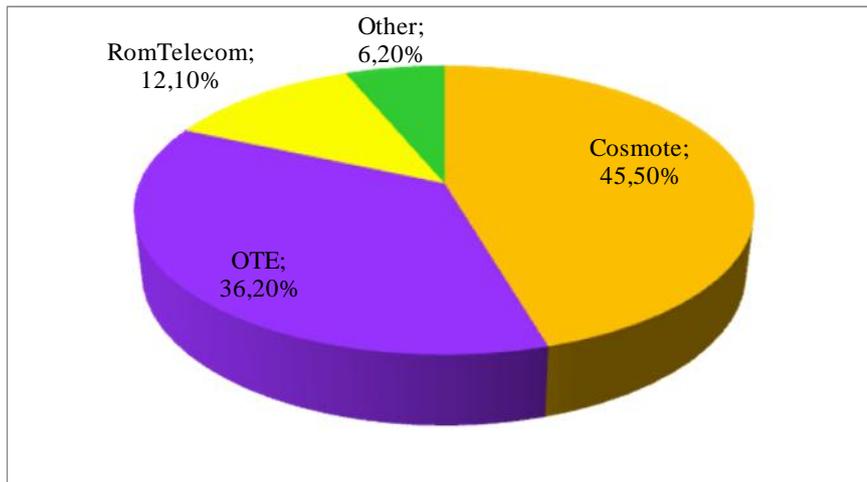
Source: www.ote.gr

An important part of OTE Group's activities is to deliver mobile services. In Greece, these activities are undertaken by the company COSMOTE Mobile Telecommunications SA, wholly owned by OTE Group.

COSMOTE Greece has expanded itself to provide mobile services through subsidiaries in Albania (AMC), Bulgaria (Globe) and Romania (and Telemobil SA COSMOTE Romania - Zapp). Cosmote Greece, together with its subsidiaries, stands for the Cosmote group, an OTE Group of companies which carries out mobile operations.

The contribution of OTE Group revenue for 2009, according to the industry is shown in the Figure no. 3, below:

Figure no. 3. Contribution revenues in 2009, according to the industry

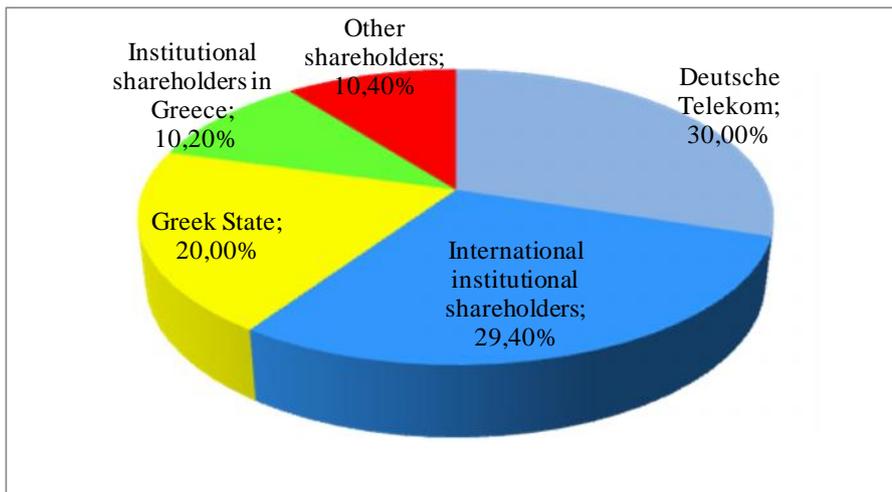


Source: OTE S.A., *OTE Annual Report 2009*, p. 13

In addition to products and services in fixed and mobile operations, OTE Group is involved in a number of additional areas through its subsidiaries in Greece, in order to provide integrated products and services, covering companies and individuals' communications needs.

The OTE SA company is among the five largest companies by market capitalization at the Athens Stock Exchange (ASE). It is also listed on stock exchanges in New York (NYSE) and London (LSE). Initially, the company OTE SA was wholly owned by the Greek state, but in 1996 the state has gradually reduced its stake in OTE's share capital. Following an agreement signed in 2008 on the participation of the German company Deutsche Telekom to the OTE social capital, Deutsche Telekom owns a 30% stake in OTE SA.

Figure no. 4. OTE SA Company ownership structure



Source: OTE S.A., *OTE Corporate Presentation, May 2010*, p. 5

In a period characterized by rapid technological change and a liberalized market environment, the group's parent company OTE, the Hellenic Telecommunication Organization SA (OTE SA), seeks to maintain market leadership in Greece and strengthen its international presence.

To respond to this strategy, the company OTE SA has adopted an organizational structure that oversees both fixed line business activities in Greece and all other OTE Group international activities. This structure is based on four dedicated business units ("Business Unit") and a Group Corporate Center.

The Board of Directors is the company's top administrative body. Its members are elected by the General Assembly of Shareholders, its purpose being to protect the general interests of society and ensure its operational efficiency. As part of its responsibilities, the Board approves the OTE company strategy and takes decisions in establishing subsidiaries or equity participation in other local or international companies.⁷

The Group's Chief Executive is the highest executive authority of the company, coordinating all departments and divisions of the company and representing the company in all operational activities in Greece and abroad, and to all authorities.

2. COSMOTE Group – OTE's Mobile Communications Division

The Company "COSMOTE Mobile Telecommunications SA" (COSMOTE), registered in Athens - Greece, started its commercial activities in April 1998 in order to provide mobile access to all of Greece. COSMOTE is wholly owned by the company Hellenic Telecommunications Organization SA (OTE SA), and it has expanded its activities in the Balkan region by successive acquisitions of mobile operators, where the **Cosmote business brand and** principles were implemented. This is the principle according to which Cosmote has succeeded to create a group of companies dedicated to mobile telephony - COSMOTE Group.

Figure no. 5. COSMOTE Group Expansion Region



Source: COSMOTE Mobile Telecommunications S.A., *Financial statements - parent company, consolidated for the year ended 31 December 2009*, p. 14

⁷ OTE S.A., *OTE Corporate Governance Report 2009*, p. 6

In August 2000, Cosmote acquired an 82.5% stake in "Albanian Mobile Communications (AMC), the leading mobile operator in Albania. In July 2005, COSMOTE has completed the acquisition of 70% of the shares of "COSMOTE Romania SA (formerly known as Cosmorom).

Another milestone in the development of the group was the acquisition of 100% of global firms in Bulgaria. Since 2005, COSMOTE has developed activities in FYROM (Former Yugoslav Republic of Macedonia) by acquiring COSMOFON company, but that was abandoned in 2009. Another important step was the acquisition in 2006 of the Germanos chain stores, the largest marketing network of products and mobile communication services in the region.

On December 31st 2009, COSMOTE Group consisted of parent COSMOTE company subsidiaries also presented in Table no.1. Despite the challenges caused by the financial crisis, COSMOTE Group continued to record positive results. The COSMOTE Group's customer base reached 22 million, by about 14% more than in 2008.

In Q4 2009, COSMOTE Group maintained its leadership in the telecommunications market in Greece, increased its revenue market in Romania and made operational performance over the market in countries where it is today.

Table no. 1. COSMOTE Group subsidiaries

Company's Denomination	Several Fields	Country	Ownership 31/12/2009
COSMOBULGARIA MOBILE EAD (GLOBUL AD)	Mobile telecommunications services	Bulgaria	100%
S.C. COSMOTE ROMANIAN MOBILE TELECOMMUNICATIONS SA (COSMOTE ROMANIA SA)	Mobile telecommunications services	Romania	70%
COSMOHOLDING ROMANIA LTD	Investment	Romania	100%
TELEMOBIL SA	Mobile telecommunications services	Romania	100%
COSMOHOLDING ALBANIA AE (CHA)	Investment	Greece	97%
ALBANIAN MOBILE COMMUNICATIONS Sh.a (AMC)	Mobile telecommunications services	Albania	82.45%
COSMOHOLDING CYPRUS LTD	Investment	Cyprus	100%
GERMANOS SA	Retail sales	Greece Greece	100%
E-VALUE SA	Mobile telecommunications services	Greece	100%
GERMANOS TELECOM ROMANIA SA	Retail sales	Romania	100%
SUNLIGHT ROMANIA S.R.L. – FILIALA	Retail sales	Romania	100%
GERMANOS TELECOM BULGARIA AD	Retail sales	Bulgaria	100%
MOBILBEEP LTD	Retail sales	Greece	100%
E-VALUE ONE PERSON LTD	Overdue accounts	Greece	100%

Source: COSMOTE Mobile Telecommunications S.A., *Financial statements - parent company and consolidated for the year ended 31 December 2009*, p. 14.

3. COSMOTE Romania – a Subsidiary of the COSMOTE Group

COSMOTE Romania, member of COSMOTE Group, was launched on the Romanian market in December 2005. Today, COSMOTE Romania is 70% owned by "COSMOTE Mobile Telecommunications SA and 30% by Romtelecom, owned themselves by the OTE SA. Cosmote Romania was founded by a fresh Cosmorom mobile operator, mobile communications division of Romtelecom. Taken over by Cosmote Greece, Cosmorom company went through a restructuring and rebranding process.

From the very beginning of its commercial activities, COSMOTE Romania undertook an ambitious plan of network expansion and an appropriate strategy to provide quality mobile services accessible to all. During the five years of working in the local market, COSMOTE Romania has invested over EUR 680 million. Today, COSMOTE Romania has a national distribution network, consisting of over 840 COSMOTE, Germanos, Internity, RomTelecom stores as well as several independent dealers². Throughout 2009, COSMOTE Romania has continued to invest in its network, managed to achieve a population coverage of 99.1% and 89.1% geographical coverage.

The company's main activity is providing a full range of mobile communications services: postpaid and prepaid services, international calls and roaming, a variety of services such as voicemail, text messaging, call forwarding, teleconferencing, and also mobile data, communications and COSMOTE agenda: i-mode wireless Internet and fax and data service.

In April 2010, Cosmote Romania announced the launch of 3G services, providing Internet access and high speed mobile broadband national coverage. An important step was the acquisition business development company Telemobil SA (Zapp), completed in October 2009. This provides additional growth potential for COSMOTE Romania, as the company will be able to offer new mobile broadband services via its 3G and CDMA licenses.

At the end of the first quarter of 2010, the total number of customers of COSMOTE Romania reached 7.2 million, of which 21% are subscribers. Widening the base of subscribers particularly for the business sector, it has generated a significant increase in revenue. The number of prepaid customers also increased, despite tough competition in this segment. Currently reaching a market share exceeding 23% and having an opportunity to offer 3G services as the result of Zapp's takeover, Cosmote Romania is focusing on expanding its presence on mobile internet and corporate segments².

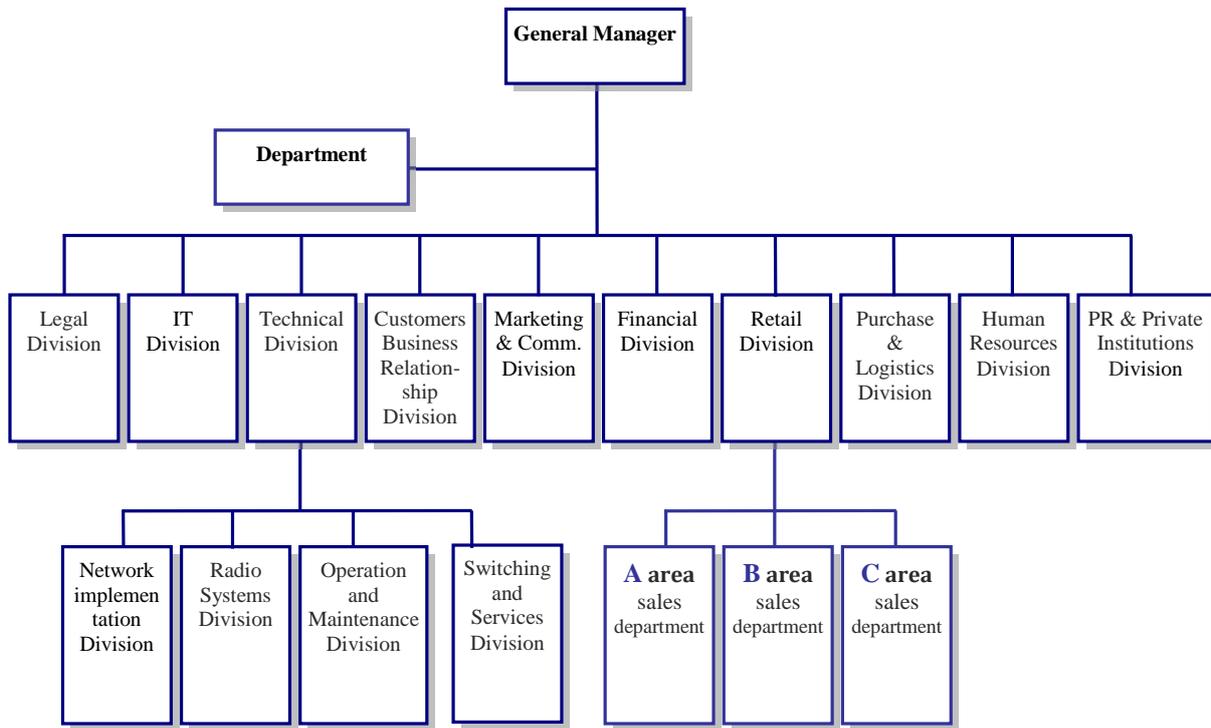
To support the rapid growth of the company, COSMOTE has become one of the most dynamic employers in the market. In the last two years, COSMOTE has created over 600 jobs currently with over 1,100 employees.

COSMOTE Romania Company's activity is coordinated by the parent company in Greece, in order for it to become a part of the group's strategic plans. The work dedicated to the mobile communications field noted that "the media and telecommunications sector is made up of only a limited number of fully independent mobile operators, since, not only that most such companies have begun life as an alternative fixed line operator, but lately there has been a tendency even from the operators that were working in full (or almost) in mobile communications [...] to acquire certain assets of fixed lines."⁸

⁸ Curwen Peter, Whalley Jason, *The Internationalisation of Mobile Telecommunications – Strategic Challenges in a Global Market*, Ed. Edward Elgar Publishing Ltd, England, 2008, p. 2

The Romania COSMOTE company structure is based on divisions and departments. Each division from the organizational structure coordinates several specific departments. Currently, the subsidiary of COSMOTE Romania is concerned with the successful completion of the organizational integration of Zapp. In this approach, the Executive Director of COSMOTE Romania has taken over the duties of the President and CEO of Telemobil (Zapp) and those of the Romania SA Telecom Germanos General Manager.

Figure no. 6. The Organizational Structure of COSMOTE SA Romania



Source: Authors' research

4. Conclusions

The transnational companies' structure is based on several aspects: size of organization, type of products offered, size of geographical area covered, the level of coordination of the business needs. For a business that evolves from a national level to a transnational one, the organizational structure evolves with the size of the business, encountering changes which may reflect the international operations increase in complexity. The structure arises from the market approach strategy and from how the company decides to meet the market needs and requirements: through a local or global policy response. Along with adopting a particular organizational structure, a transnational company's management team will decide on a management strategy, covering the balance of power between parent company and subsidiaries, to harmonize the objectives of local interest with the global interest ones.

An important factor often associated with globalization and rapid expansion of transnational corporations is the ICT (information technology and communications) sector's strong progress of late. This technological development enables the rapid exchange of information between parent companies and subsidiaries of transnational

corporations and ensures the provision and processing of necessary decision-making. The rapid development of the telecommunications sector was driven by political decisions to eliminate monopoly states in this sector. The telecommunications sector liberalization paved the way for private investment in this field. A major target of investment is the mobile phone used by both people and companies.

An important aspect in analyzing the organization and management of the COSMOTE Romania subsidiary is the presence in the ownership of OTE SA of Deutsche Telekom. This proved to be a fairly discreet shareholder. So far the Germans have not made any radical change in Romania: all top managers - appointed in Athens remained in office nor has the German manager assumed a position of visibility in public companies on the OTE local market.⁹ Moreover, OTE's chief executive said that "we must say very clearly that Romtelecom and Cosmote are direct subsidiaries of OTE and Deutsche Telekom. Deutsche Telekom's involvement is welcome, it is desirable to happen and it will happen, but it will take place only through the Greece parent company"¹⁰ However, the Germans' entry into ownership began to be felt. They have created inside COSMOTE and RomTelecom joint working teams, and the financial reports on the market have not only Athens as their destination, but also Bonn. There is no doubt that a suitable structure facilitates the company's costs minimization, the access to new markets and optimal communication of internal information. Wrong decisions in choosing an organizational structure may cause the company losses, which in a highly competitive economic environment can make the difference between survival and elimination from the market.

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¹⁰ www.zf.ro, article „Deutsche Telekom and OTE: It is too soon to expect drastic changes for Romania?", 22.03.2009