

Chapter IX

The Impact of Deregulation on the Quality of IDD Services: The Case of Hong Kong

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ABSTRACT

The introduction of deregulation in IDD service with effect from January 1999 triggered a round of extremely fierce competition in Hong Kong's IDD market. In response, both the incumbent operator and the new entrants had to adopt aggressive strategies to defend or gain market share. This chapter reports on an intensive experiment of the quality of IDD services provided by the major IDD operators in Hong Kong. An innovative research methodology was designed and 240 members of the public participated in the controlled experiment. Based on 1,790 successful IDD calls to the 10 most popular destinations from Hong Kong, the IDD quality of the major operators was benchmarked. To the best of our knowledge, this was the first large-scale experiment of its kind that had ever been

conducted. The experiment revealed some interesting findings. First, the monopoly control of the international gateway by the incumbent operator puts pressure on the other IDD operators to devise an appropriate strategy balancing tariffs against the quality of the IDD line. Second, when competition becomes mature, all IDD operators must place more emphasis on quality. Finally, the full benefits of quality improvement in telecommunications service in a specific region are also subject to the level of development of telecommunications infrastructure in its counterpart economies.

INTRODUCTION

Telecommunications services have historically been operated as a monopoly industry in most countries until recently. In an environment that lacks competition, operators tend to take a conservative and bureaucratic approach in managing their telecommunications systems. Consequently, for decades subscribers have to contend with poor-quality service, lack of choice, and successive large price increase (Redwood, 1988).

However, in recent years, incumbent operators are facing an increasingly competitive market due to the growing trend of deregulation. At the same time, new technologies have provided effective means for new entrants to penetrate the market. Consequently, telecommunications has become one of the most competitive industries around the world. Telecommunications management in the 21st century is no longer an issue of technical operation, but of strategic planning that is challenged by the increasingly intensified competition. In this case, a profound knowledge of the potential impact of deregulation is critical for telecommunications management.

This chapter, based on an intensive experiment of international direct dialing (IDD) service quality in Hong Kong and interviews with individual operators, attempts to provide a panorama review of the competitive strategies of the incumbent operator and the new entrants in a resale-based competitive telecommunications market. It examines the significance of IDD quality in forming an effective competitive strategy within a market transitioning from a monopoly to full liberalization. Finally, the implications of deregulation on telecommunications management are highlighted.

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