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Globe Telecom: Succeeding in the Philippine Telecommunications Economy

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EXECUTIVE SUMMARY

This case examines the role and implications of deregulation in the telecommunications sector on an IT-based services organization in the Philippines. Reports from international lending institutions suggest that investments in the telecommunications sector typically produce up to a 30-fold impact on the economy. Predictions like these have caused several of the emerging economies throughout the world to deregulate their telecommunications infrastructure in an attempt to leverage this economic potential. This case study specifically examines the actions of Globe Telecom from just prior to the 1993 Philippine deregulation through the present. Globe has continued to succeed despite the competition against the Philippine Long Distance Telephone Company, which at one time controlled over 90% of the telephone lines in the Philippines. Globe has been able to do this through strategic partnerships, mergers, and acquisitions. Furthermore, Globe has developed into a leading wireless provider by its effective use of modern information technology.

SETTING THE STAGE

"Consider Fe Reyes. The resident of Quezon City, Manila's biggest residential district, waited nearly three decades for the nation's monopoly telephone

service, Philippine Long Distance Telephone Co., to reach her doorstep. But last year, thanks to 1993's deregulation that allowed rival companies to start offering phone service, she got a new company to install a line in just three days."[1]

The telecommunications sector in the Philippines was deregulated in 1993. Prior to the deregulation, the government-sponsored Philippine Long Distance Telephone Company (PLDT) handled the infrastructure and services requirements related to telecommunications. For most practical purposes, PLDT was commonly viewed as an operational arm of the government's Department of Transportation and Communications. Since the deregulation of 1993, over 150 new telecommunications infrastructure providers have been formed. Five players have now emerged as the leading keepers of telecommunications for the Philippines. This change has had a significant impact for the Philippines and for the Southeast Asian region in general. This new environment raises a variety of economic and technological issues that organizations need to recognize as they operate in the Philippines. With its geographical compositions of over 7,100 islands, the Philippines provides some unique challenges for information technologies and telecommunications. This case examines the current status of investments in the Philippines telecommunications infrastructure and their implications. Using a single representative organization—Globe Telecom—financial, competitive, regulatory, and technology pressures and opportunities are examined in light of a recently deregulated telecommunications sector. Using Globe Telecom as a focus organization, this case includes a macro perspective and provides insights and information that illustrate the impacts from a national and regional (Southeast Asia) perspective.

The pervasive utilization of information technology throughout the telecommunications sector inherently makes it ideally suited to study. Furthermore, economically speaking, the international investment banking sector has suggested that investments in the telecommunications sector typically produce a 30-fold return on investment for a host nation's economy. At a macro level, telecommunications can be viewed as an indicator of a country's development status. At an organizational level, telecommunications can be a source of competitive advantage (Clemons & McFarlan, 1986).

Understanding the Philippines

The Philippines unique geographical composition makes it an excellent case for a telecommunications study. Composed of over 7,100 islands, the Philippines is located in Southeast Asia off the coasts of China, Vietnam, and Malaysia, between the South China Sea and the Philippine Sea (see Exhibit 1). The nation encompasses an area of approximately 300,000 sq. km., comparable to the size of Arizona. There are roughly 80 million inhabitants of the Philippines, and approximately 11 million of those are located in metro Manila. Quezon City, within metro Manila, is the seat of the country's capital, while Makati is metro Manila's financial district. The Philippines has two official languages: Filipino and English. In fact, the Philippines is the third largest English-speaking country in the world, maintaining a 95% literacy rate. The Philippines gained their independences from the United States in 1946. Since that time, they have slowly moved toward a democracy, finally ratifying their new Constitution on February 2, 1987.

The Philippines is a member of the United Nations and the Association of South East Asian Nations (ASEAN). ASEAN plays a key role in the region and is comprised of the following countries: Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam. The functional goals of ASEAN is to accelerate the