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The Competitive Advantage Analysis of the Telecommunication  
Corporation after the Restructuring of China's Telecommunications  
Industry in 2008

--- Case study of China Mobile Communication Corporation

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## **ABSTRACT:**

China has the world's largest telecommunication market and the competition in this market is becoming fiercer among corporations. To survive and increase market shares, competitive advantages are the key factors each corporation strives for. As one of the representative companies in the industry, China Mobile established in 2000, with its competitive advantages, has expanded rapidly and led to huge profit gap between itself and other corporations. This is however a strong indication that China's telecommunications industry is becoming more and more imbalanced. To obtain better competitive environment and market structure, several restructuring of the telecommunication industry has been implemented by the Chinese government. Such restructurings especially the one in 2008 has brought great impacts on the development of China Mobile.

In this thesis, we investigate the effects of restructurings on the competitive advantages of companies through a case study of China Mobile with a focus on the restructuring in 2008. The analysis framework of the thesis starts with analyzing the competitive environment of the whole telecommunications industry through Porter's five forces analysis. Then, SWOT analysis model combining with the resources-based view and capabilities-based view, is used for a comparative research of the changes of China Mobile's competitive advantages. In the long run, the goal of this research is to understand how to maintain and gain competitive advantages of a company under industry restructuring by government intervention. Additionally, the finding will facilitate the government in future policy making.

**KEY WORDS:** China's telecommunications industry; Restructuring; China Mobile; Competitive advantages; SWOT analysis

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## **ABBREVIATIONS**

China Telecom	China Telecommunications Communications Corporation
China Mobile	China Mobile Communications Corporation
China Unicom	China United Telecommunications Corporation (Before the restructuring in 2008)
China Unicom	China United Network Communications Group Corporation (After the restructuring in 2008)
China Netcom	China Netcom Communications Corporation
China Satcom	China Satellite Communications Corporation
China Railcom	China Rail Communications Corporation

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## **1. INTRODUCTION:**

### **1.1 The Restructurings and the Expansion of China Mobile in China's Telecommunications Industry**

China has the world's largest telecommunications market with its own characteristics (Cang, 2005). All of the companies in the market are state-owned. Moreover, the industry is the engine of the economic growth (Ibid). However, with all these achievements, the telecom industry has been in crucial need for reforms. Since 1998, the China's telecommunications industry has experienced two big restructurings (Ibid). In order to transit from monopoly to gradual opening competition, the China Unicom Communications Corporation (China Unicom) was incorporated and administered by the government. In 1999, the China Telecom Communications Corporation (China Telecom) was split to China Telecom and China Mobile Communications Corporation (China Mobile). Meanwhile, in order to foster the development of competitive telecommunications companies, the government increased the state capital invested to China Unicom and expanded its business scope (Wang, 2008). Moreover, in 2002, the China Telecom was further divided into China Telecom (southern area) and China Netcom (northern area) to obtain better market structure. However, these restructurings still can not break the imbalance in China's telecommunication industry (Ibid). On April 20<sup>th</sup>, 2000, China Mobile Communications Corporation (briefly named as "China Mobile") was established by the Chinese government (Cang, 2005). Due to the improvement of living standards, more and more people use mobile communication to instead of fixed-line services. The rapid development of mobile business thus resulted in quick expansion of China Mobile which is the only operator just focus on mobile services. In 2007, China Mobile had more competitive advantages than other corporations and was the leader within China's mobile telecommunications industry (Harwit, 2008). These competitive advantages came from the corporation's long-term dominating possession of a variety of valuable business resources and capabilities (Collis, 1995) which in turn led to huge gap of profits between China Mobile and other corporations. Especially, since 2006, with

reduced prices of mobile services, strong capital and support of customers scale, China Mobile has grown rapidly in market share and occupied huge competitive advantages. Thus, China's telecommunications industry became more and more imbalanced (Harwit, 2008). In order to improve this destructive situation, on May 24, 2008, Chinese ministry of information industry, national development and reform commission, and ministry of finance issued "Notices on deepening of the reform of the telecommunications system". Since then, huge changes have taken place in the competitive environment for the telecommunication corporations.

## **1.2 Purpose and Research Questions**

As the mobile business develops, Chinese telecommunications industry has become more and more imbalanced with China Mobile possessing most of competitive advantages which is relative measure of the advantage of a company over its competitors and market share. Due to this imbalance of market structure, restructuring telecommunications industry of China is urgently needed (Wang 2008:144). Strategic restructuring is a very broad concept that includes the recombination and reconfiguration of the enterprise ownership, assets, liabilities, personnel and other elements, and it is a very normal market behavior. There is no doubt that strategic restructuring is an effective market competition means. However, due to the fact that the plan has been proposed by the relevant state departments rather than the enterprise itself, the actual operation of the strategic restructuring in Chinese state-owned enterprises is different from common practice of similar restructuring in the world. Therefore, although the restructuring in 2008 is the third attempt that Chinese government has tried to restructure the telecommunications industry, not all the strategies can bring the favorable marketing performance. In fact, during the first year of this restructuring, the profit of China Mobile reached three times more than the sum of the profit of China Telecom and China Unicom. Therefore, more and more researchers have raised their attentions to the performance of this restructuring.



The thesis focuses on whether China Mobile's competitive advantage will be weakened by this restructuring. More specifically, the research question of this thesis is: *What are the changes of competitive advantages of China Mobile after the restructuring of Chinese telecommunications industry?* The finding of this research will show a clear picture of the changes of competitive advantages of China Mobile as well as the changes of external competitive environment within this industry. The result of this research can be helpful for China Mobile and even the Chinese government to understand the outcome of this strategic restructuring and the possible ways to improve its effectiveness from the perspective of competitive advantages.

### **1.3 Disposition**

Given aforementioned background, in order to investigate the performance of the restructuring by government, the author decided to from the competitiveness perspective, conduct a case study of China Mobile to see whether its competitive advantage has been or will be weakened by this restructuring. And the disposition of this thesis is organized as follows: the first section of this thesis begins with a brief introduction of the restructurings on China's telecommunication industry and China Mobile's expansion, followed by the statement of the purpose and research question for this thesis. A literature review is presented in Section 2 that explains the concept of competitive advantage. This section also introduces the analytical framework which combined five forces and SWOT analysis of this thesis. In Section 3, the methodologies of the thesis (qualitative analysis and case study) are discussed. Empirical findings served as background for this research are presented in Section 4. In Section 5, the changes of competitive environment are analyzed based on Porter's Five Forces model (Porter, 1985) and SWOT (Andrews, 1971). Finally, the thesis is concluded in Section 6 with discussion on limitations and future work.

## **2. THEORETICAL FRAMEWORK**

Nowadays, enterprises have entered the era of low profit and increasing competition. And they also behave more and more similar to each other. Competition is already up to the strategic level and becomes the key to success. Therefore, under the competitive environment, achieving competitive advantage is considered as the ability for a company to stay ahead of present or potential competition (Porter, 1985). The theory of competitive advantage is mainly used to answer the question why some companies can have better performance than others (Ibid). Scholars in strategic management have made great progress in answering this question, For example, Prahalad and Hamel (1990) claimed that core competence is the main source that leads to different performances between competitors within an industry. Though, a significant number of results are now available, most of the scholars have different understanding or interpretation about the source of competitive advantage which lead different strategy theories as is discussed below.

### **2.1 The Definition of Competitive Advantage**

Hofer and Schendel (1978) introduced the concept of competitive advantage to the field of strategic management. They explained that competitive advantage is obtained by companies through allocation of resources and development of a unique resource positioning distinct from other competitors. After that, Porter (1985) pointed out in his book “Competitive Advantage” that competitive advantage comes from the values business creates for customers, and he defined competitive advantage as a company having a long-term, unique and advantageous competitive position relative to other competitors. He argued that competition is the key to success and determines all the activities related to the company’s overall performance, such as: innovation, cultural cohesion and the efficiency of implementation; while advantage means company can gain ascendancy in any environment (Porter, 1985). Moreover, Porter (1985) suggested that company can use three strategies to provide value for the purchase: cost leadership, differentiation and focus strategies. However, Besanko, Dranove, and

Shanley (2000: 389) suggested, “When a firm earns a higher rate of economic profit than the average rate of economic profit of other firms competing within the same market, the firm has a competitive advantage in that market.” And Hill and Jones (2001) thought that if the high economic profits can be maintained for several years, it could suggest that the firm has a sustainable competitive advantage. Aaker (1989) claimed that the assets and skills are the basis for a company since they provided a sustained competitive advantage and long-term performance. Ansoff and McDonnell (1990) defined the competitive advantages as the qualities possessed by the company in product or market scope, and these qualities can bring the company to a better position in the competition than other competitors. From the summary above, it can be seen that though there is no unique definition of competitive advantage, all different interpretations of competitive advantage stress that the competitive advantage is relative measure of the advantage of a company over its competitors.

## **2.2 The Source of Competitive Advantage**

Many scholars have tried to fully elucidate how to obtain the competitive advantages for enterprises from economic perspective or management perspective. Andrews (1971) in his book “Concept of Corporate Strategy” first proposed that the company must have a unique competitiveness. And he created the SWOT matrix, which is used to analyze corporate strength, weakness, opportunity and threats. The SWOT analysis framework can be considered as the earliest theoretical analysis framework for competitive strategy. And it established two basic dimensions for the analysis of competitive advantage: internal factors and external environment. And after that, different schools appeared in the interpretation of the causes of competitive advantage including the Positioning School which pay relatively more attention to the external environment, the Capabilities-Based School and the Resource-Based School which focuses on corporate internal conditions.

### **2.2.1 The Positioning School**

The neoclassical economics considered that individual companies achieve high profits mainly due to the different market structure. There exists entry barriers, exit barriers and government's protection and restrictions within the industry. Mason and Bain advanced three basic areas for the modern industrial organization theory: market structure, market conduct and market performance (SCP Paradigm) or Mason-Bain Paradigm (Porter, 1980). And this paradigm indicates that the different performance between enterprises is caused by market structure and market conduct. Michael Porter is a representative for the Positioning School. He further explained the source of corporate competitive advantage in his book "Competitive Advantage" (1985). Porter (1980; 1985) introduced Mason and Bain's industrial organization theory to the field of strategic management. He explained how companies develop their strategies to gain sustainable competitive advantage from different angles, such as industrial structure, comparative advantages and disadvantages within the industry, and entry-exit barriers. In Porter's view, the industrial structure or industrial environment is the basis of enterprise development and implementation of competitive strategy. Therefore, Porter repeatedly stressed that structural analysis is the footstone of establishment of competitive strategy (Ibid). Meanwhile, Porter (1985) argued that the state of competition within an industry depends on five basic competitive interactions, which are: the threat of the entry of new competitors, the threat of substitute products or services, the bargaining power of buyers, the bargaining power of suppliers and the intensity of competitive rivalry. And each of those competitive forces subjects is influenced by different economic and technical factors. For example, the threat of the entry of new competitors is restricted by economies of scale, switching costs, capital requirements, distribution channels and other factors. Those five competitive forces jointly determine the intensity of competition in an industry and the potential of profit.

Though Porter's industry analysis theory created a precedent of competitive advantage research, it still has some shortcomings. Rumelt (1984) argued with

empirical analysis, Porter's claim that the industry positioning is a key factor to gain competitive advantages is not in line with the actual situation. This is because the degree of dispersion of industrial long-term profitability is much higher than the dispersion among industries; and the main sources of corporate excess do not come from the external structure features within the industry but caused by the difference between companies' internal resource (Rumelt, 1984). And Prahalad and Hamel (1990) also pointed out that while the industrial structure is a key component of the competitive environment, Porter only gave a thorough analysis and description about what the enterprise "might do" (environmental threats and opportunity) and did not elaborate the contents of what the enterprise "can do" (company's strength and weakness).

### **2.2.2 The Capabilities-Based School**

The capabilities-based school emphasizes the use of a company's unique capability to develop and implement the competitive strategy and access the competitive advantage (Prahalad and Hamel, 1990). Companies that have similar resources always have different efficiency in the use of resources, and such differences between companies are related companies' different capabilities. The different capabilities between companies are the source of competitive advantage (Collis, 1995). Amit and Schoemaker (1993) defined capability as the abilities companies have to achieve specific business goals through allocation of resources. There are two representative opinions: one is "core competence" given by Prahalad and Hamel (1990) and the other one is "overall capacity" proposed by Stalk et. al.(1992). Prahalad and Hamel (1990) defined core competence as the organization's accumulative knowledge, in particular, the knowledge about how to coordinate various kinds of production skills and how to integrate multiple technologies. There are three core criteria to recognize corporate core competence: (1) it can provide the possibility to leverage many products and markets; (2) it must provide significant benefits to the end consumer; (3) it is difficult for competitors to imitate (Prahalad and Hamel, 1990). And the core

competences empower a company to access a wide variety of markets. Then, Stalk et. al. (1992) argued that a very successful company must pay attention to its behaviors, that is, the organization activities and business processes, and consider improving these activities and processes as a primary strategic objective. Therefore, they proposed the concept of overall capacity as the collective skills and knowledge within the organizational members and the organizational procedures of people interact with each other in the organization (Stalk et. al., 1992). Both of these two capability concepts stressed the unique ability which is reflected by company's internal behavior, but the core competence stresses the individual key advantage of the business value chain while the overall capacity emphasizes the overall strength of the value chain.

### **2.2.3 The Resource-Based School (RBV, Resource-Based View)**

The resource-based view (RBV) was very popular in 1990s. As a representative theory of the field of strategic management, resource-based theory has undergone considerable development. Newbert (2007) illustrated that resource-based theory can be classified as VRIN model which is based on static view and dynamic capabilities model.

#### **2.2.3.1 VRIN model which based on static perspective (RBV)**

Resources-based theory takes enterprise as a combination of human resources and physical resources. It claims that different performances of companies are due to the uniqueness of their resources. And enterprise uses these unique resources to gain competitive advantage and establish or implement its strategies. Penrose (1959) proposed the concept of resources and considered enterprise as the collection of production resources that include material resources (equipment, land, raw materials, etc.) and human resources (engineers, managers, workers, etc.). And based on this, Wernerfelt (1984) was the first to present the resource-based view and he believed that enterprise is a collection of resources and the source of competitive advantage is the enterprise strategic resources. He also pointed out that companies may need access

to distinguish and obtain the key resources to achieve higher profits. Generally, these key resources refer to the permanent assets including tangible and intangible assets that a company owns. And he argued that it is more reasonable to analyze a company from the resource's perspective than product's perspective. This is because compared with the traditional concept of products; one can get more direct understanding from the resource-based view. Meanwhile, he established two assumptions as the premise of analysis: one is the strategic resources that enterprises own are heterogeneous; and the other is that those strategic resources can not flow within the industry.

Barney (1991) further developed Penrose and Wernerfelt's resource-based view. Based on the assumptions of resource heterogeneity and immobility, he proposed a concept of strategically relevant resources and the four characteristics (VRIN). He defined enterprise resource as all assets, capabilities, organizational processes, corporate identity, information and knowledge which the enterprise can control and is enabled to use to improve its efficiency and effectiveness of strategies. However, he also pointed out that for enterprises, not all of the resources are strategically relevant. This means that, only those resources, which could help enterprise achieve sustaining competitive advantage and assist the enterprise sustaining above average returns, can be seen as strategic resources. Therefore, according to Barney (1991), these strategically relevant resources must include four characteristics (VRIN), which are valuable, rare, inimitable, and non-substitutable. "Valuable" means that the resources can facilitate company in identifying opportunities, isolating threats and promoting the creation or implementation of the strategies, which in turn can help company improve its efficiency. "Rare" means that resources are possessed by few competitors and those possessed by only one company. Generally, as long as the number of companies who possess these valuable resources is less than the number of companies which could lead to a perfectly competitive industry, this valuable resource could produce competitive advantage. However, it is not sufficient for a company to achieve sustainable competitive advantages if resources only have "valuable" and "rare" features, because other companies can imitate or use other means to obtain those

resources. Therefore, the strategically relevant resources must also be “inimitable” and “non-substitutable” (Barney, 1986; 1991).

### **2.2.3.2 Dynamic Capability (RBV)**

Resource-based view extended the understanding of organizational performance and strategic management. However, some scholars have questioned the effectiveness of resource-based view (Elsenhardt and Martin, 2000; Barney, 2001). The older primitive resource-based view and VRIN was established based on static standpoint which can not be established in unstable and unpredictable circumstances. Therefore, the competitive advantage that caused by those resource-based view is unreliable in a dynamic market environment (Elsenhardt and Martin, 2000). In a dynamic market environment, how to obtain and maintain competitive advantage for company became a new challenge for researchers. For this reason, the new theoretical methods which can help company gain competitive advantage and high profits in dynamic market was proposed recently. Winter (2003) claimed that there is no doubt that the strategic resources are important for enterprise to possess competitive advantages; however, they are not enough. In order to obtain higher profits, companies also need to have and reproduce their relationship network within which resources can integrate or configure. Teece et al. (1997) proposed the framework of dynamic capabilities and defined it as enterprise’s capabilities that enable the enterprise to integrate and reconfigure its capabilities and resources to match the rapidly changing external environment. The definition of dynamic capability by Teece et al. is supported and further developed by other researchers. For example, Elsenhardt and Martin (2000) argued that dynamic capability of enterprises can help enterprise create and develop new capacity to meet or create market opportunities during the process of using resources, especially the process of integrating, restructuring, obtaining and releasing resources.

Therefore, the main difference between the dynamic capability theory and VRIN model is: the dynamic capability theory is based on the resource-based view and adds



the dimension of environment change into its framework. That is, the resource-based view focuses on a certain point of time, and the resources and ability mentioned in VRIN model can enable enterprises to obtain competitive advantages relative to competitors and thereby gain high performance. On the other hand, the dynamic capability theory focuses on how to maintain long-term competitive advantages for companies in a dynamic environment, in order to gain sustained long-term profits. Although the focuses are different between these two theories, both of them belong to resource-based theory and explain the reasons for different performance between companies. In practice, it is beneficial to understand both to help guide a company toward higher profits.

### **2.3 Analytical Framework**

Compared with the theory of positioning school, theoretically, the capacities-based and resources-based views have progressed greatly. However, due to the dynamic and global external environment which brings significant impacts on the formation and development of companies' competitive advantages, nowadays, the process of the formation of competitive advantage is the process of matching company's internal resources as well as capacities and external environment. Therefore, the research of company's competitive advantage of this thesis must combine with external environment analysis, strategic resources analysis as well as core competence analysis.

In this thesis, Porter's five forces model is used to analyze the external business environment which has a direct impact on the formation and development of competitive advantages for China Mobile. Porter's five forces model (Porter, 1985) focuses on the micro-environmental analysis to show the competitive structure of the industry and the relationship among the competitors within the industry as well as other related industries. Thus, these basic competitive forces which are the sources of competitive advantage determine the intensity of competition and who earns the

ultimate profit in this industry. Therefore, we can from the perspective of five competitive forces to see whether the external environment has lead to China Mobile's changes of competitive advantage and competitive position. Meanwhile, Andrews (1971) pointed out that the SWOT analysis can help enterprise better understand its internal environment. The internal environment including enterprise's strategic resources and capabilities is the key factor that affects enterprise's competitive advantages and profits (Newbert, 2007). Therefore, SWOT analysis model combined the resources-based view and capabilities-based view is used for a comparative research of the changes of China Mobile's strengths, weaknesses, opportunities and challenges after the 2008's restructuring in China.

### **3. METHODOLOGY**

#### **3.1 Research Strategy, Designs and Data Collection**

In this thesis, qualitative research is chosen as the main research strategy. Bryman (2008:22) pointed out that "the connection between theory and research, epistemological considerations, and ontological considerations, quantitative and qualitative research can be considered as two distinctive clusters of research strategy." The qualitative method is an interactive method which expresses data in words. And this method is used when the purpose is to go deeper into a subject (Alexander and Andres, 2005). The researchers who use this method always have no clear vision about the conclusion of the study (Bryman, 2008). And in fact, there exits a debate on wheatear China Mobile's competitive advantages will be reduced by the restructuring in China in 2008. Therefore, in this research topic, the conclusion in the final part is partly based on the qualitative method.

Bryman (2008) has recognized five popular ways of research design in social research which includes experimental design, cross-sectional design, longitudinal design, case study design and comparative design. Case study method is an empirical research method that focuses on one complex or specific phenomenon in the society and tries

to interpret it more in-depth and comprehensively (Alexander and Andres, 2005). Meanwhile, “Comparative design embodies the logic of comparison in that it implies that we can understand social phenomena better when they are compared in relation to two or more meaningfully contrasting cases or situations” (Bryman 2008: 58). In this thesis, in order to get a better understanding of research questions, The author has chosen a combination of comparative design and case study research design to form a good base for the research study. The author chose China Mobile as case study because it is the main target corporation for this restructuring by Chinese government that aims to reduce China Mobile’s competitiveness to break the imbalanced of market share in telecommunications industry. Hence, in the comparative analysis, to get closer to the answer, the comparison of the China Mobile’s changes of competitiveness before and after this restructuring as well as the comparison among the three competitors within this industry will be one of the focuses.

To be more specific, in this thesis, in order to help deepen my understanding on the chosen research topic, a descriptive research design has been chosen. According to the different purposes of the research, case study can be divided into descriptive, explanatory, evaluative and exploratory research (Yin 1994). Descriptive case study is an accurate description of the profile for a person, time or scene (Ibid). And through this kind of research, new information will be gained to obtain a more useful view of the research field which is very important to find an answer towards the research question of this thesis. Therefore, the thesis will use the descriptive research design to carry out a more in-depth and comprehensive research.

Moreover, at the beginning of the research, I planned to do a qualitative interview with some managers in China Mobile. However, when I came back to China, I found it is difficult for me to gain the permit of personal interview for the marketing managers in China Mobile. Therefore, for this thesis data collection is done based on secondary data. As Bryman’s (2008) suggestion, secondary data includes many different kinds of literature such as journals, textbooks, and online sources. In this

thesis, secondary data was collected through both of scientific books, articles and the Internet. Due to the chosen corporation in this research is a limited Corporation, it is easy to obtain the archive permits and information through this corporation's websites and annual reports. Moreover, one manager work in China Telecom provided the annual reports of China Telecom which is hard to find on the websites to me.

## **4. EMPIRICAL FINDINGS**

In this section, the empirical findings of this thesis from the research are divided into three parts in chronological order: the background of China Mobile before 2008's restructuring, the overview of 2008's telecommunications industry's restructuring and the empirical findings for China Mobile after this restructuring. And most empirical findings are collected through secondary data that from China Mobile's websites and the annual reports.

### **4.1 Background of China Mobile before the Restructuring**

China Mobile is a mobile operator which is based on GSM network and 3G network and formerly known as Mobile Communications Bureau. It was established by Chinese central government on April 20th, 2000. It has a 51.8 billion RMB registered capital and more than 700 billion RMB assets. China Mobile owns solely China Mobile (Hong Kong) Group Limited (China Mobile, 2007b) which set wholly-owned subsidiaries in 31 provinces in China and is listed in the stock markets in Hong Kong and New York. At the end of 2007, the network of the China Mobile has covered most of cities in China which achieved the continuous coverage of the main transport and indoor coverage of the key areas in the city. It has more than 200 million customers and has launched GSM international roaming services with more than 200 countries and regions (China Mobile, 2007a). China Mobile was the only operator which focused on mobile communication before 2008. It has the first network and customer scale in the world (China Mobile, 2007b). And its great operating performance and huge development potential has attracted many international

investment. Since 2007, it has been ranked as the world's top 500 companies by the U.S. "Fortune" magazine for five consecutive years.

#### **4.1.1 The Key Brands of China Mobile**

##### ***1. GoTone***

GoTone is the flagship brand of China Mobile. Due to its high-profile and strong brand image, the GoTone has many well-heeled customers (China Mobile, 2007c). From the first opening of GSM digital mobile phone in 1994 in Fujian Province, GoTone completed its evolution transitioned from a product to a successful brand. Nowadays, the GoTone has become the greatest mobile communication service brand which has the most extensive network coverage and international roaming.

##### ***2. M-ZONE***

M-ZONE is a product customized by China Mobile for the young and vogue customers and was launched in March, 2003. And the position of M-ZONE is "novelty" while "fashion, fun and explore" is the main brand attributes (China Mobile, 2007d). To attract the young generation, M-ZONE has flexible rates and provides many different innovative and personalized services. M-ZONE has also created a personalized and full of innovative and interesting way of communications for young people. And it represents a new kind of pop culture and expands the outer edge of the China's mobile communications business.

##### ***3. Easyown***

The Easyown has the largest number of customers in Chinese mobile industry. As it is said in its brand slogan "It's easy to own and easy to use!" (China Mobile, 2007e), in order to meet all the needs of customers, the Easyown carries out different tariff packages designed specifically the customer segmentation.

#### **4.1.2 The Key Business of China Mobile**

There are two kinds of business of the China Mobile. One is *basic business* including Local Calls, Domestic Long Distance Calls, Domestic Roaming, International Long

Distance Calls and International Roaming. Another one is *value-added business* which includes Buy and Sell Stocks from your mobile phone, PIM, 12580, 139Email, Caller Identity, Remind Me, Call Forwarding Call Barring Voice Mailbox, Wireless Music Club, SMS, CRBT, Mobile Internet, and so on.

With the development of the Internet, Fetion is provided by China Mobile as a new comprehensive communications service which combines seamlessly services between mobile network and internet. It integrates IVR, GPRS, SMS and other means of communications to meet the different needs of customers (China Mobile, 2007f). At the same time, the trend of the development of telecommunication value-added business is that service providers are facing unprecedented pressure, and if they can not adapt to changes of telecommunication industrial structure and start new business strategies as soon as possible, they will be eliminated. The better way for value-added service providers is to integrate the power of content providers and pay more attention to content production and dissemination. Therefore, China Mobile's new value-added services such as Mobile Newspaper and BlackBerry are provided by China Mobile to meet this trend.

According to China Mobile's 2007 annual report, China Mobile had 36933.9 million customers while the annual growth rate was 22.6% in 2007. And in 2007, the average monthly net increase of users was over 5.67 million which nearly half of these subscribers came from rural areas in China. Till 2007, the China Mobile has already achieved substantial growth in the developed eastern region and also showed significant potential of central region and western region. At the end of 2007, China Mobile possessed 69.3% market share of the whole telecommunication market and maintained its leading position in China's telecommunications industry (China Mobile, 2007a). Meanwhile, the number of customers who use the value-added services of China Mobile reached 34955.1 million. The revenue of value-added services was 91.6 billion RMB while occupied 25.7% of the whole revenue of Chinese mobile industry in 2007. The WAP and MMS business continued to grow

while the wireless music business was rapid development and had 35.46 million senior members in China Mobile's wireless music club. At the same time, the subscribers of mobile newspaper was up to 23.55 million and the number of users of Fetion was 12.81 million in 2007 (China Mobile, 2007a). The value-added business became more and more important for the development of China Mobile.

### **4.1.3 Financial Report of China Mobile**

The operating income of China Mobile in 2007 was 356.96 billion RMB and increased 20.9% (China Mobile, 2007a). The net profit increase in 2007 was 31.9% which was significantly higher than the increase in 2006 and was more than twice the overall profits of the China Telecom and China Unicom which indicated China Mobile had gained much higher profits than other operators in Chinese telecommunications industry. This indicates that before the 2008's restructuring in China's telecommunications industry, China Mobile was in the position of increasing competitive advantage and rapid development.

## **4.2 Overview of Restructuring of China's Telecommunications**

### **Industry**

China's telecommunications industry has experienced a series of restructurings from monopoly market to the competition market. For instance, from 2002 to 2008, the number of main competitors increased from two competitors in the beginning increased to six and the number of competitors became three. In the following, an overview of the restructuring of China's telecommunications industry is presented in detail.

In 1994, the founding of China Unicom Communications Corporation was an event that signified weakening monopoly and increasing competition in Chinese telecommunications industry. Before 1998, the telecommunications industry in China

followed a system that combined government function and enterprise management (Cang, 2005). There were two departments one of which was the sector controlled to the Ministry of Posts and Telecommunications and the other is China Unicom. The governmental sector was in the charge with building the country's fixed telephone network, mobile communication network, satellite communication networks and data communications networks as well as operated and managed the most of basic and value-added telecommunication services. On the other hand, China Unicom was responsible for operating mobile communications business. However, at that time, China Unicom had very small market share.

From 1998, the development of China's telecommunications industry entered a new era with a series of reforms among which there are three important restructuring (Cang, 2005). The first restructuring began in 1998 and last until 2001, the Ministry of Posts and Telecommunications in China was split into two separate departments and complete separation was achieved between the government and telecommunications enterprises. And after that, in 1999, China Telecom Communications Corporation (China Telecom) was separated into China Telecom and China Mobile Communications Corporation (China Mobile). Meanwhile, in order to foster the development of competitive telecommunications companies, the government increased state capital invested to China Unicom and expanded its business scope to make it more competitive as soon as possible. In 2000, the China Rail Communications Corporation (China Railcom) was established and during the next year the China Satellite Communications Corporation (China Satcom) was formally set up. With the founding of all these new companies, China's telecommunications market became more and more flexible.

The second restructuring focused on breaking the monopoly of fixed telecommunications business and implementing the reorganization among resources, business and market. In 2002, China Telecom was split into north part and south part geographically. The new China Telecom controlled 21 provincial telecommunications



operators in the South of China. After that, in the November 2003, China Netcom Communications Corporation was founded. This restructuring led to a new competitive landscape of China's telecommunications industry consisting of six competitors: China Telecom Communications Corporation (China Telecom), China Mobile Communications Corporation (China Mobile), China Unicom Communications Corporation (China Unicom), China Netcom Communications Corporation (China Netcom), China Satellite Communications Corporation (China Satcom) and China Rail Communications Corporation (China Railcom). And with the competitions between these operators, China's telecommunications industry developed rapidly. However, during its rapid development, China Mobile had more competitive advantages than other corporations. Therefore, the development of China's telecommunications industry became more and more imbalanced.

In order to avoid this destructive situation of the telecommunications industry, the third restructuring was finalized on May 24, 2008. The Chinese ministry of information industry, national development and reform commission, and ministry of finance issued "Notices on deepening of the reform of the telecommunications system" (关于深化电信体制改革的通告) and promoted according the third restructuring for China's telecommunications industry (C114, 2011). Since then, the competition of Chinese telecommunications industry has been dominated by three state-run businesses: China Mobile, China Telecom and China Unicom.

In the following sections, we focus on the third restructuring and discuss the underlying reasons, measures as well as progress for that restructuring. The insights of these perspectives can facilitate understanding the effectiveness that restructure and proper policy making for future restructuring.

#### **4.2.1 The Reasons for the Restructuring in 2008**

There are several reasons that lead to the restructuring in China's telecommunications

industry in 2008. The rapidly developing market monopoly by China Mobile and the imbalance of China's telecommunications industry was one of important triggers for the restructuring in 2008 (Wang, 2008). With the development of the social economy and the improvement of the people's living standard in China, the number of new fixed telephone users continued declining while the number of mobile phone users maintained rapid growth. The mobile services were gradually superseding the fixed telecommunications service. The revenue share of fixed telecommunications operators especially the China Telecom continuously dropped accompanied by the increase of revenue share of mobile operators (Harwit, 2008). It led to the dominant market position of China Mobile in China's telecommunication industry. According to the special reports on 2008's restructuring in SOHU websites, in 2007, the revenue of China Mobile amounted to 48.09% of the total revenue of the four big operators (China Mobile, China Telecom, China Unicom and China Netcom) while the net profit of China Mobile reached 63.8% of the sum of the four main operators in China. At the end of 2007, the China Mobile held 70 % of the whole market share. This suggests that the two previous major restructuring of China's restructuring in telecommunications industry has not yet complete broken the monopoly and introduced sufficient competition. Therefore, considering this imbalanced and competition-lacking market, Chinese government gave China Telecom the full-service license and proceeded with the third restructuring to develop the mobile business of China Telecom and China Unicom in 2008.

Another reason for this restructuring is to resolve issues of the development of 3G industry and promote 3G technology to users (Xia, 2010). By 2007, 3G licenses have been granted in worldwide and the number of users was up to 202 million. And nowadays, there are three mainstream 3G technology standards which are TD-SCDMA, WCDMA and CDMA2000 system. WCDMA 3G technology system was developed by ISO while CDMA 2000 system was proposed based on 3G and IS-95 standard. And most of 3G individual users and commercial networks in the worldwide are using these two kinds of systems. On the other hand, the TD-SCDMA

3G technology was researched and developed by Chinese and in May, 2000, this 3G technology standard was approved by the ITU. With the development of telecommunications industry, possession of advanced technology is an important way to increase companies' competitive advantage. Therefore, to popularize and to test the 3G technology became another reason for Chinese government to restructure China's telecommunication industry.

#### **4.2.2 The Schemes of the Restructuring in 2008**

In this section, we discussed the schemes of the third restructuring in detail and showed the structure of the three dominated operators after the restructuring look as follows (SOHU, 2011):

***China Mobile:*** The company took over China Railcom. The assets are more than 700 billion RMB. And the new China Mobile should base its 3G services on the TD-SCDMA standard. The former general managers of China Mobile remained in office; Zhao Jibin, the former president of China Railcom and Zhang Chunjiang, the former deputy general manager of China Netcom became the new China Mobile's deputy general manager.

***China Unicom:*** The company merged its GSM mobile phone services with China Netcom's fixed-line services. The assets of the new China Unicom are over 500 billion RMB. It received the WCDMA license. The changes in management resources were: the former chairman of China Unicom led the new arrangement group while the former deputy general managers Zuo Xunsheng, Zhao Wadong and so on joined this group.

***China Telecom:*** The company combined its fixed-line service with China Unicom's CDMA mobile phone services and the telecom services of China Satcom. The assets of China Telecom are approximately 700 billion RMB. It should provide its 3G services based on the CDMA 2000 standard. The former chairman and deputy general manager of China Telecom remained and Shang Bing, the former CEO of China Unicom was to hold the position of deputy general manager of China Telecom.

### **4.2.3 The Process of the Restructuring in 2008**

On June 2<sup>nd</sup>, 2008, China Telecom purchased China Unicom's CDMA network. It has made a transfer agreement with China Unicom that paid 43.8 billion for CDMA's network and 66.2 billion for CDMA's business. At the same time, China Telecom emphasizes the promotion of its own wireless broad band brand "e surfing" (SOHU, 2011).

On June 2<sup>nd</sup>, 2008, China Netcom and China Unicom completed the listed companies' merger through stock conversion. And from that time, all business halls of China Netcom can apply the China Unicom's GSM business to achieve channel integration. And the new China Unicom called "China United Network Communications Group Co.,Ltd" ( also can be Briefly named "China Unicom") (China Unicom, 2011) was established on January 6th, 2009.

On May 23rd, 2008, a bulletin by a spokesman for China Mobile showed that China Railway Group Limited formally merged into China Mobile and became its wholly-owned subsidiary. And then at the same year, August 18<sup>th</sup>, the Ministry of Industry and Information Technology released the "The agreement on the trial commercial development for China Mobile Communications Corporation" (*关于同意中国移动通信集团公司开展试商用工作的批复*) and agreed that China Mobile can construct TD-SCDMA networks in 28 provinces in China (SOHU, 2011).

## **4.3 Overview of China Mobile after China's Restructuring in 2008**

After the restructuring in China's telecommunications industry in 2008, the biggest highlight is engendering the competition of the development of comprehensive full-service operations by the three dominated operators. The former fixed-line operator China Telecom accesses the qualification of mobile business (Ibid). At the same time, China Mobile has accessed the license of fixed network operation.

Therefore, with the improvement of transmission capacity and technology resources of mobile communication, especially the development of 3G communications business, China Mobile has changes with its business structure. It develops the former business and starts the new business about the fixed network and TD-SCDMA network (China Mobile, 2011). The next part of this thesis presents the changes of China Mobile's business and organization, human resource as well as the financial results and other operation data after the restructuring in 2008.

### **4.3.1 The Business Structure of China Mobile after the Restructuring in 2008**

The business structure of China Mobile after the restructuring can be divided into four segments: the fixed-line business; its former basic mobile communication business; the voice value-added services and the data businesses (China Mobile, 2011). And the fixed line business and other related business are transferred from the former China Railcom which including: Easy fixed-line business, video conferencing, 95105 call center, business hotline and 800 free hotline business. Meanwhile, the new mobile broadband services of China Mobile are inherited from the former China Railcom's broadband business. It includes internet business, Asymmetric Digital Subscriber Line (ADSL) business which is a type of DSL broadband communications technology used for connecting to the Internet and allows more data to be sent over telephone lines, as well as Local Area Network (LAN) service. China Mobile still has 120 million mobile services users and continue to occupy more than 70% of mobile communications market after the restructuring (JRJ, 2011). Moreover, with the development of the value-added business, China Mobile launched two kinds of initiatives one is use SMS to tell the users about their prices of value-added business each month and another one is allows users to query and deregister their value-added business through SMS on January 7<sup>th</sup>, 2011 (Xinhuanet, 2011).

However, due to the spring up with 3G technology, currently, China Mobile's

TD-SCDMA can cover only ten cities in China and the rest are covered by ADSL services (Xia, 2010). Therefore, in order to adapt the development of industry, China Mobile increases the coverage of the TD-SCDMA network and improves its capacity of mobile data transmission. According to China Telecommunications Trade's investigation data (Li, 2010), after the restructuring, China Mobile has quickly and efficiently speeded up development of its 3G network. In 2009, China Mobile's 3G network has already cover 238 cities in China. By the end of June 2007, the number of 3G network users already reached 28.08 million while China Mobile occupied 11.83 million and became the largest among the three operators. Moreover, although compared with China Telecom and China Netcom, China Railcom is far behind on the number of subscribers, it has full control of the whole country's local fixed network. It will greatly enhance the competitiveness of China Mobile if it makes use of the former China Netcom's fixed network resources and the powerful mobile service. Therefore, these new fixed-line and related business bring huge value for China Mobile which expand the social impact and improve overall efficiency as well as achieve the full-services operation for China Mobile.

#### **4.3.2 The Changes of China Mobile's Organization and Human Resources**

China Mobile merged China Railcom as its wholly-owned subsidiary; therefore, compared with China Unicom and China Telecom, there is no huge change in China Mobile's organization structure after 2008's restructuring. The major adjustment has been focused on its human resources especially the most managers (C114, 2011). Wang Jianzhou continued to serve as the Executive Director, Chairman and Chief Executive Officer of China Mobile and presides over the overall management of China Mobile. And most of manager of China Mobile have maintained their position. At the same time, Zhang Chunjiang general manager of the former China Netcom serve as party secretary of China Mobile while Zhao Jibin the CEO of the former China Railcom holds the position of deputy general manager of China Mobile. From

the internal management mechanism, most of researchers believe that due to the strong ability of adapting to the reform and the leading corporate culture, China Mobile has the highest level of overall management capability than any other companies in the industry.

### 4.3.3 The Financial Result and Key Operations Data of Chinese Telecommunications Operators after the Restructuring in 2008

Through the 2009 annual report of the three major telecommunications operators in China, we can see that due to the fierce market competition, there was a clear slowdown of the growth of their revenue. And this is the first time that the revenue growth of China Mobile was less than 10%. China Mobile is the only operator that achieves positive growth; the growth rate was only 2.4% (China Mobile, 2009; China Telecom, 2009; China Unicom, 2009). However, comparing the key operations data of the three operators in 2009, the net profit of China Mobile still reached three times more than the summation of China Telecom (13.27 billion RMB) and China Unicom (9.56 billion RMB). The key operations data for China Mobile's business in 2009 is shown in the table below:

**Table 1: The key operations data for China Mobile's business in 2009**

	2009	2008	Growth
Operating Revenue (million RMB)	452,103	411,810	9.8%
Usage fees and monthly fees (million RMB)	300,632	278,608	7.9%
Value-added service fees (million RMB)	131,434	113,288	16.0%
Other operating revenue (million RMB)	20,037	19,914	7.9%
Customer Base (million) *	522.3	457.3	14.2%
Net Additional Customers (million)	65.0	87.9	-26.0%
Total Voice Usage Volume (billion minutes)	2,918.7	2,441.3	19.6%
Handset Internet Access Traffic	35.0	13.3	163.2%

Volumes (billion megabytes)			
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\* The number of G3 customers who used China Mobile's 3G network service in December 2009 was 3.408 million.

Source: *China Mobile, 2009*

## 5. ANALYSIS

As is mentioned in literature review section, Porter (1980; 1985) pointed out that external environment plays an important role on the formation of enterprise' competitive strategy and performance. At the same time, the internal resources and capabilities are the basis for company to participate in competition and gain high profits (Teece, et. al., 1997). Therefore, in this section, during the analysis of the impact of the 2008's restructuring on China Mobile's competitive advantages, the basic idea to combine external environment analysis and internal strategic resources analysis as well as core competence analysis for a deep comparative research.

### 5.1 Porter's Five Forces Analysis of the External Environment of China Mobile after 2008's Restructuring

#### 5.1.1 The Threat of the Entry of New Competitors

After the restructuring in 2008, due to the entering of the new competitor China Telecom which purchased CDMA business, China Mobile faces the competition from China Telecom and can no longer be the single dominator in China's mobile communication market. Potential competitors are important industry competitive forces for China Mobile's development of sustainable competitive advantage and will bring huge threats to China Mobile. Unlike the situation before this restructuring, the field of China Mobile's competition has extended from the mobile communications market to the fixed-line as well as internet business. At the same time, the new China Telecom and China Unicom own the largest Fiber-optic network and mature mobile communications network and have the capability of providing full communications services to the customers (Harwit, 2008). China Mobile needs to respond to these



threats. On the other hand, the potential competitors as the new entrants must face the difficulties from the conversion costs, funding needs, and sales channels (Porter, 1985). For example, as mentioned in the empirical finding section, China Telecom paid 110 billion RMB to purchase China's Unicom's CDMA network and business. In contrast, China Mobile has already formed the scale economy of mobile communications market. Therefore, in a short time, China Mobile's net revenue has continued to grow compared to the net revenue before the restructuring.

### **5.1.2 The Threat of Substitute Products or Services**

With the development of Internet technology and communications business, the homogeneity of value-added services between the operators in China's telecommunications industry becomes obvious (Harwit, 2008). In the meantime, there are more and more network communications software, China Mobile's is confronted with increasing threat of substitute products. Though the threat of substitute products is not caused this restructuring, China Mobile still needs to keep pace with the new technology trends and looks for new growth products or service. On the other hand, after this restructuring, China Telecom introduced its own wireless broadband brand "e surfing" (SOHU, 2011) which has also become a new substitute threat for China Mobile.

### **5.1.3 The Bargaining Power of Buyers**

Enterprises are always seeking to maximize returns on investment while the buyers want to use the lowest price to purchase products or services (Porter, 1985). With the increasing of the living standards, the consumption of telecommunications business is increasing. Although the Chinese monitor department implements the measure of market-oriented for the price controls of telecommunication business (Cang, 2005), due to the development of information disclosure system and the increasing of China's media capabilities of public opinion, consumers have channels to disclose the problems and appeal to reduce the price of telecommunications services (Ibid).

Therefore, the operators cannot hide their high profits. For example, on January 7<sup>th</sup>, 2011, in order to respond to public criticisms on the prices of value-added business by the consumers and to increase the users of value-added business, China Mobile launched two kinds of initiatives to remind the users prices of value-added business and to provide easy channels for users to query and deregister their value-added business (Xinhuanet, 2011).

Moreover, after the restructuring, with the entering of China Telecom and the increasingly strengthened position of China Unicom in mobile communications market, the competition became more and more intense. This fierce competition leads to the raise of status of the buyers. Customers are attracted by the cheap and good quality products and service. The bargaining power of buyers will continue to increase which in turn requires China Mobile's to consistently adjust the price strategy.

#### **5.1.4 The Bargaining Power of Suppliers**

Due to the implementation of full-service business by the three operators in China's telecommunications industry after the restructuring in 2008 (C114, 2011), the demand of communications equipment is increasing. Therefore, equipment suppliers have more growth possibility, and the bargaining power of suppliers for these three operators is the same as the situation before the restructuring. The main threats from suppliers are the increasing prices of goods and the reducing quality of products and services (Porter, 1985). However, with the development of telecommunications technology, the equipment manufacturers also face competition within their industry; in addition, because of the intense competition after the restructuring, telecommunications operators gingerly control their cost, the suppliers in telecommunications industry do not have stronger bargaining power than before.

#### **5.1.5 The Intensity of Competitive Rivalry**

After the restructuring in 2008, the main competitors to China Mobile are China

Telecom and China Unicom. As mentioned above, before the restructuring, China Mobile held the vast proportion of market share. However, after the restructuring, China Telecom tries to balance the development of fixed-line services and the exploitation of its mobile services to avoid loss of fixed-line users which is an old problem. Therefore, with the access to CDMA network, China Telecom becomes competitive in market share in mobile communication (SOHU, 2011). Meanwhile, although China Unicom has lost CDMA network users, it still has a large number of subscribers and continues to occupy a certain market share. In all, due to the competition from China Telecom’s CDMA network and China Unicom WCDMA network (Ibid), China Mobile is facing more intensive competitive rivalry after the restructuring in 2008.

**Table 5.1: The summary of the Five Forces Analysis of China Mobile**

<b>The Threat of the Entry of New Competitors</b>	New competitor: China Telecom
<b>The Threat of Substitute Products or Services</b>	The new technology trends and China Telecom’s new brand “e surfing”
<b>The Bargaining Power of Buyers</b>	Customers ask the cheaper and better quality products and service than before
<b>The Bargaining Power of Suppliers</b>	no big changes
<b>The Intensity of Competitive Rivalry</b>	More intensive competitive rivalry from China Telecom and China Unicom

## **5.2 SOWT Analysis of China Mobile after the Restructuring in 2008**

### **5.2.1 The Strengths (Competitive Advantages) and Weaknesses (Competitive Disadvantages) of China Mobile**

The market position is the outward manifestation of competitive advantage, and it can usually be measured by three indicators: market share, profitability and customer loyalty (Day and Reibstein, 2004). After the restructuring in telecommunications

industry in 2008, the resulting fierce market competition had enormous impact on China Mobile's development. The revenue growth and net profit growth of China Mobile have dramatic declined in 2009 compared to 2008, which were 9.8% growth of operation revenue and 2.4% growth of net profit, respectively. However, the operation revenue and net profit of China Mobile remained much higher than the summation of China Telecom and China Unicom as before this restructuring. With respect to customers, compared with China Telecom and China Unicom, China Mobile stayed dominant in the number of 2G users and 3G users. Therefore, from this perspective, after the restructuring in 2008, China Mobile still keeps its market position and possesses many competitive advantages.

The definition of competitive advantage refers to the "distinctive competence" which means there are comparative strengths of company's resources and capabilities. Day and Reibstein (2004) also claimed that enterprises can through identifying, maintaining and enhancing its internal resources and capabilities achieve lasting competitiveness and high profits. Some researchers advocated that the resources and capabilities of enterprises can be divided into the following categories: 1. physical resources, for example, advanced machinery and plant; 2. financial resources, ability to obtain cheap capital and financial management capacity; 3. human resources, the potential and quality of its staff; 4. marketing resources; 5. technological resources; 6. reputation; 7. organizational resources (Hofer and Schendel, 1978; Grant, 1991). Therefore, the following sections from resources and capabilities perspectives, the changes of its competitive advantages and disadvantages before and after 2008's restructuring for China Mobile are analyzed and discussed.

#### **5.2.1.1 The Strengths (Competitive Advantages)**

##### **■ *The Financial Advantage***

China Mobile maintains its leader position in financial resources of within China's telecommunication industry after the restructuring in 2008. Considering the assets, after restructuring, the assets of China Mobile and China Telecom were more than 700

billion RMB while the assets of China Unicom are approximately 500 billion (SOHU, 2011). However, the profitability of China Mobile is much higher than China Telecom as well as China Unicom. During the restructuring, whereas China Telecom used most of cash reserves to purchase CDMA, China Mobile only merged China Railcom which is of relative smaller scale. Thus, the integration problems for China Mobile were smaller than other operators. In contrast, although China Unicom got 110 billion RMB from China Telecom, it still had less cash reserves due to the debt and network expansion pressure. Therefore, China Mobile continued its original effective operations and kept its financial advantage. Moreover, price strategy is the most competitive weapon during the development of full-services business. The financial advantage of China Mobile can be used to consolidate and expand its market share through price strategy.

#### ■ *The Advantage of Scale on Mobile Business*

The advantage of scale is the most important factor to promote the development of telecommunications operators (Cang, 2005). After the restructuring in 2008, although China Telecom improves its overall strength after purchasing CDMA and increases 41.926 million mobile services users, China Mobile still has 120 million mobile services that continue to occupy more than 70% of mobile communications market (JRJ, 2011). And most of high-end customers who focus on the quality and service instead of the price have already become loyal customers of China Mobile for many years and bring huge revenue for China Mobile. Therefore, it is difficult for China Telecom and China Unicom to retain high-end customers in a short time. Moreover, China Mobile's advantage on customers scale has established stable foundation for its development in 3G business.

#### ■ *The Network Advantage*

For the telecommunications operators, the capacity of network is an important indicator of core competitiveness (Cang, 2005). After the restructuring in China's telecommunications industry, China Mobile still has huge network advantage. The

network advantage is one of the key factors that help China Mobile attract new users. The network of China Mobile covers almost the whole country. And with its high-quality and mature operation, the network resource is the core competitiveness. Additionally, China Mobile also increases its network capacities from the benefits of the support of TD-SCDMA by Chinese government, though China Mobile still does not integrate China Railcom's network resources. Therefore, it is very difficult for other operators imitate the network advantages even after the restructuring. After this restructuring, due to the limitation of the lack of investment in network construction, China Unicom still has the problem of inadequate network coverage. On the other hand, although China Telecom owns the CDMA network, the coverage is still smaller than China Mobile. Therefore, China Mobile still has the best telecommunications network after the restructuring.

#### ■ *The Brand Advantage*

China Mobile's brand competitiveness has also brought huge impacts on its development after the restructuring. Before this restructuring, China Mobile has successfully built three brands: the Gotone, M-ZONE and Easyown. During the building of its brands, China Mobile has clear customer positioning and launch the appropriate business and services and won the huge users. The reputation of China Mobile's brands still brings certain advantage to the development of 3G market after the restructuring. The brand loyalty of customers has lead to preference of in choosing China Mobile's 3G network although the price is not the lower.

#### **5.2.1.2 The Weaknesses (Competitive Disadvantages)**

Comprehensive changes in the environment may lead to the situation that, the competitive advantage the company had in the past hinders the future development and becomes its disadvantage (Day and Reibstein, 2004). According to the view of Dynamic Capability School, a company often falls into its competitive disadvantage position due to it is difficult for the company to respond the dynamic changes in business environment (Teece, et. al., 1997). Therefore, the disadvantage of China

Mobile can be analyzed from its ability to respond to the environmental changes and the opponents' strengths.

■ ***Poor Capability of Developing Full-services Business and Resisting Risks***

The competition within the Chinese telecommunication industry is transferred to full-services business competition after the restructuring in 2008. Although China Mobile resumes its scale advantage on mobile business, its competitiveness of full-services business is lagging behind China Telecom and China Unicom. After the restructuring, with the development of full-services business, China Mobile accesses the resources and operational capacity of fixed-line business from the former China Railcom. However, compared to China Unicom and China Telecom the scale is still very small and has poor competitiveness. On the other hand, China Mobile has focuses its business on mobile communication services, while the demands of customers have switched to comprehensive network assess and content varieties in mobile services. The simple mobile service provided by China Mobile can not meet the needs of users. Compared to other operators, the users of China Mobile has less choice, thus, in the future, the stability of users for China Mobile will become lower if China Mobile does not respond accordingly.

■ ***Weak Marketing for Home Market and Group Market***

Compared to China Telecom's mature home and group market, China Mobile not only lacks products but also is weak on its organizational structure and human resources to support the development of these two markets. Therefore, after the restructuring, the problem of development of home and group business for China Mobile has been exposed with the entering of mobile business of China Telecom, and it is difficult for China Mobile earn a share in home market and group market in the near future.

■ ***Poor Capability of the Internet Business***

The substitution effect of Internet on traditional communications business has become remarkable. Voice business accelerates depreciation. However, after the restructuring

in 2008, the number of broadband users of China Mobile possesses was 7% of the whole market share while China Telecom and China Unicom owned 59% and 33% in 2009, respectively (China Mobile, 2009; China Unicom, 2009; China Telecom, 2009). Using broadband access as the foundation of IPTV and HDTV services is the main task of China Telecom and China Netcom. Meanwhile, after the restructuring, due to the merge of China Unicom and China Netcom, compared to the huge broadband users and strong load capability of new China Telecom and China Unicom, China Mobile is far behind in broadband communications market.

## **5.2.2 The Opportunities and Challenges of the company**

Business opportunities and challenges is a part of the external market environment (Andrews, 1971). Different from general market conditions, opportunities and threats (challenges) can be seen as directly effects on the development of the company. Moreover, due to the homogeneity of the source of opportunities and challenges, whether the source brings to opportunity or challenge depends on the position of the company during the change of external environment.

### **5.2.2.1 The Opportunities**

Compared to the other two operators within the industry, China Mobile bears the least impact by the restructuring. Generally, due to the integration of business, the collocation of human resources as well as the impact of capital markets, restructuring has huge impacts on enterprises' operation. And its duration depends on the strength gap between the two enterprises (Cang, 2005). For the restructuring in 2008, due to the absolute disadvantage of China Railcom, the restructuring has only minor influence on China Mobile's human resources and organization's integration. However, China Telecom and China Unicom need to face a series of problems after this restructuring, such as the optimization of its new organization's structure and the construction of their new network. Therefore, China Mobile can use this opportunity to consolidate its former advantages of traditional customer resources and extend its



market share.

#### **5.2.2.2 The Threats (Challenges)**

Due to the low maturity and lack of operating experience of TD-SCDMA technology, after the restructuring, China Mobile needs to face the challenges of providing 3G services on the TD-SCDMA standard. One of the main intentions of the Chinese government to restructure the telecommunications industry is to develop the 3G services and to reduce the imbalance of the market share (Xia, 2010). As the weakest operators after the restructuring, China Unicom has the advantage to operate using the WCDMA standard from Chinese government. European standard WCDMA has the highest maturity of commercial development and equipment and terminal services while the price is much cheaper (Song et.al., 2002). China Telecom also benefit from being assigned another standard – the American CDMA 2000. Though the use of the American CDMA 2000 standard is declining recently, the cost for upgrading the CDMA2000 standard is the lowest compared to other two standards (Ibid). However, compared to the two aforementioned standards, the TD-SCDMA standard has weakness on its technology and lack of operational experiences. This means for a long time, China Mobile needs to face many uncertainty of operating its 3G services based on TD-SCDMA standard. On the other hand, at present, though China Mobile accounted about 70% of mobile users, China Telecom and China Unicom have already jointed and applied to implementation of asymmetric regulation policy for China Mobile. In fact, this restructuring by Chinese government in 2008 has noted that in order to promote the balanced development of Chinese telecommunications industry, Chinese government will implement asymmetric regulation policy during the necessary period of time after the restructuring (Harwit, 2008). The goal of this regulatory policy is to lead to the sustainable development of China Mobile.

**Table 5.2 The Summary of SWOT Analysis of China Mobile**

Strengths (Competitive Advantages)	Maintain its financial advantage; have huge scale on mobile business; have better telecommunications network than other competitors; the brand advantage help China mobile obtain more 3G users.
Weaknesses (Competitive Disadvantages)	Poor capability of developing full-services business than China Telecom; Weak marketing for home market and group market after China Telecom entered the mobile industry; poor capability of the internet business.
Opportunities	China Mobile bears the least impact by the restructuring in 2008
Threats (Challenges)	Provides 3G service on the TD-SCDMA standard; asymmetric regulation policy by Chinese Government

## **6. CONCLUSION**

With the expansion of China Mobile and the development of 3G business, the Chinese ministry of information industry, national development and reform commission, and ministry of finance issued “Notices on deepening of the reform of the telecommunications system” (*关于深化电信体制改革的通告*) on May 24, 2008 to carry out its third time big restructuring of telecommunication industry after 1998. One of the aims of this restructuring is to solve the imbalance in the telecommunications market and achieve effective competition. Before the restructuring, thanks to the rapid development of mobile communication business, China Mobile has used its superior network and abundant value-added services to obtain absolute competitive advantages and possessed most of market share. After this

restructuring, compared to China Unicom and China Telecom, there are more competitive disadvantages for China Mobile. The major problems including poor capability of developing full-services business and resisting risks, weak marketing resources for home and group market, as well as poor Internet business support are exposed after this restructuring. However, China Mobile suffers the least impact from the restructuring. It maintains its capital, profitability, customers scale, networks as well as brand advantages and has strong competitiveness on price wars. Therefore, in the early of development of full-services business, it is difficult for the other two operators to win the market share of China Mobile in a short time. China Mobile will still be in a lead status to increase its market share. From this perspective, in the short term, the goal of reducing China Mobile's market share and achieving effective competition can not be carried into effects. On the other hand, to some extent, this restructuring of telecommunications industry has changed the competitive environment, China Mobile need to face new mobile business competitor - China Telecom, and increasing bargaining power of buyers as well as the development of new 3G business. And China Mobile's is presented with challenges of the regulatory policies from the government and the disadvantages of TD-SCDMA. However, due to the very high expectation of the development of TD-SCDMA standard by Chinese government (MIIT, 2008), China Mobile can use the opportunity of trial operation TD-SCDMA standard to develop 3G business and keep its competitive advantages and leader position in a long time.

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