

## **Telenor in Bangladesh (C): The Way Forward**

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This case was written by Professor Prashant Malaviya of INSEAD, Professor and Presidential Research Scholar Arvind Singhal of Ohio University, and Peer-Jacob Svenkerud of Norsk Tipping A/S (formerly of Telenor A/S), with considerable assistance in research and writing from Swati Srivastava. Significant assistance in data collection was provided: (1) at Telenor by Torodd Hermansen, Thor A. Halvorsen, Helge Dietrichson, Sigve Brekke, Ola Ree, Erik Aas, Berit Elden, Beth Tungland, Marit Reutz, Harriet Berg, Einar Flydal, and Tore Karlsen; and (2) at the Grameen Bank by Professor Muhammad Yunus and Khalid Shams. The case is intended to be used as a basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

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## **GrameenPhone: "A Diamond in Telenor's Portfolio"**

Telenor, the Norway-based telecommunications company, began operations in Bangladesh through its GrameenPhone subsidiary in March 1997. There were several reasons this investment was undertaken. One was that the financial risk was not very high: the initial investment was US\$40 million, relatively small for a corporation like Telenor. Also, Bangladesh represented a potentially large market with relatively non-existent competition. Above all, the Village Phone Project added a unique dimension to this venture, and it became Telenor CEO Tormod Hermansen's personal crusade to pursue a win-win socially responsible bottom line.

By the end of the second quarter of 2004, GrameenPhone had achieved spectacular results, exceeding its financial goals and fulfilling Hermansen's ideal of multiple bottom lines. GrameenPhone was highly profitable in Bangladesh's urban markets, where its primary customer base resided. Breaking even in 2000, GrameenPhone reported positive retained earnings in 2001, and it had consistently high EBITDA margins (between 40 and 50 percent). Further, GrameenPhone registered its 1 millionth subscriber by the end of 2003, and by September 2004, it expected to cross 2 million subscribers, representing a projected growth of over 100 percent in less than a year. As a result of these achievements, financial analysts', who had been sceptical about Telenor's GrameenPhone venture, started to acknowledge that the company was self-financed, that it had excellent cash flow that could provide dividends, and that it had tremendous growth potential. As one financial analyst's report put it, GrameenPhone was "a diamond in Telenor's portfolio".

At the same time, GrameenPhone's importance in the social fabric of Bangladesh grew by leaps and bounds over the course of seven years. By mid-August 2004, through its Village Phone Project (VPP), Grameen Telecom had placed almost 70,000 mobile phones in 40,000 villages. These 70,000 phones provided telephone access to over 70 million rural Bangladeshis, helping them bridge the digital divide. For Bangladesh, GrameenPhone represented an important chapter in the history of foreign joint-venture businesses in the country. Between 1997 and May 2003, GrameenPhone paid US\$284 million in taxes, and was the second highest corporate taxpayer in the country after British American Tobacco. Since it had begun operations, the company had invested over US\$230 million in the country, which made it one of the largest foreign direct investors, and Norway the country with the largest investment in Bangladesh. If one added up all the village telephone ladies, GrameenPhone employees, vendors, distributors, suppliers, contractors, and other individuals, modest estimates were that GrameenPhone helped provide employment for 300,000 to 400,000 people in Bangladesh. During the floods in Bangladesh in the summer of 2004, GrameenPhone also worked extra hard to keep the network running. Telephone traffic understandably was at its highest in this time of national crisis, and the people of Bangladesh, including the government, were quite appreciative of the role GrameenPhone played in serving the national interest. The pinnacle of these positive outcomes came from a research report commissioned by Grameen Bank, which found that each mobile phone in Bangladesh had improved the GDP of the country by approximately US\$2,500.

It appeared that the vision and courage of Muhammad Yunus, Iqbal Quadir, and Tormod Hermansen – the believers in, and drivers of, this joint venture – had been borne out.

Telenor's experience in Bangladesh suggested that sound business could mean subscribing to multiple, co-existing, and mutually reinforcing (win-win) bottom lines. In Bangladesh, Telenor's multiple bottom lines included meeting its commercial interests in terms of revenues, profits, and growth, as well as meeting social interests in terms of serving poor, rural, illiterate inhabitants who were often excluded from traditional markets, thus overcoming the digital divide. In the process, Telenor had gained substantial experience in overseas operations by doing business in a distant geography and an unfamiliar market, which helped to build intellectual and structural capital for future ventures. Telenor had also enhanced its image and prestige by partnering with an internationally acclaimed local partner, the Grameen Bank. This gained it invaluable public relations points, as world leaders (such as Bill Clinton) held up GrameenPhone as a model for sustainable, multiple bottom lines.

However, in the modernistic glass building and corridors of Telenor's Fornebu headquarters near Oslo, strategists were wondering what next? Questions were being raised about consolidating operations in Bangladesh. As Hermansen noted, the Bangladesh mobile phone market seemed to be approaching its inflection point on the diffusion curve, and would eventually move from its current growth phase to a maturity phase. While this transition was probably five to ten years away, steps had to be taken now to prepare for the future and maintain GrameenPhone's leadership position in an increasingly competitive market. Consolidation would also require GrameenPhone to shift its focus and style from that of a start-up, to a more traditional multinational business operation. This would mean changing the organization culture, reallocating resource from the supply-side (such as infrastructure) and for primary demand stimulation (such as providing availability and access) to focusing on growing competition and on secondary demand stimulation (such as increased marketing and sales expenditure). This would also possibly mean incurring higher acquisition costs to woo new subscribers, shifting the focus to customer retention, and therefore adopting different objectives for financial planning. Questions were also being raised about how GrameenPhone might make a push to reach the "bottom of the pyramid" in Bangladesh. Yet others were advocating that Telenor build on its global expansion strategy by taking the knowledge and expertise gained from Bangladesh to quickly move to other Asian and developing countries. For instance, Telenor was making commitments to make a major move into the mobile telephone market in Pakistan. Finally, some had an even bigger vision for Telenor's future. Though in the minority, and often speaking in hushed tones, these individuals felt that the Bangladesh experience should be the catalyst for transforming the culture and philosophy of Telenor as it sought to differentiate itself from other global telecommunication operators.

## **Key Challenges Facing GrameenPhone and Telenor**

### **The Business Environment in Bangladesh**

Although Telenor had, to the extent possible, prepared for most of the hurdles posed by the unique nature of the Bangladesh business environment, several had not yet been fully overcome. Addressing these issues was vital for ensuring the long-term success of GrameenPhone. Bangladesh continued to suffer from the lack of an appropriate regulatory framework that created uncertainty for both consumers and mobile service providers. The government's investment in telecom infrastructure was minimal. The bureaucratic and regulatory hurdles posed by the monopoly state-owned Bangladesh Telegraph and Telephone Board (BTTB) loomed large. Institutional reforms that would enable private operators to

deliver services on a level playing field with BTTB were still absent. In 2004, Bangladesh was ranked as the most corrupt country in the world, in stark contrast with Norway that was ranked as one of the least corrupt. The government's protectionist economic policies had always been problematic for day-to-day operations. For instance, before it could even begin operating, Telenor faced bureaucratic obstacles in getting the base equipment through Bangladesh customs. The political climate continued to be unstable. As the former Managing Director of Telenor Asia put it on being asked about the future, "In another three to four years, we may have 3 or 4 million subscribers in Bangladesh; then again in three to four years, it could be a military coup." It was not entirely evident how these environmental issues should best be tackled.

### **Dividend Flow Out of Bangladesh**

One immediate need for Telenor was to try and take earnings out of Bangladesh in the form of dividends to Telenor shareholders. As many observers noted, this was critical for Telenor's long-term business interests in Bangladesh, as well as to appease the financial analysts and shareholders. It had not been attempted in the past from fears that such capital flow out of Bangladesh might be severely taxed or might cause GrameenPhone to lose its favourable standing with the political regime. As a result, Telenor had chosen to re-invest profits back into the venture. Recently, however, expectation within Telenor and GrameenPhone had become more optimistic and it appeared that by the end of 2004 Telenor and its partners might be able to repatriate earnings. The Bangladesh government seemed to have recognized the significance of this step, as it would send an important positive signal to prospective foreign investors about the business environment in Bangladesh.

### **Interconnectivity between Mobile and Fixed Phone Lines**

The toughest issue for Telenor was dealing with Bangladesh's interconnection system for telephone networks. Telephone services depend on smooth interconnections in order for phone users to be able to place calls to any other phone user regardless of which network the users are on and who operates these networks. The BTTB had a state monopoly on the fixed line network and the interconnections between the various mobile networks. Moreover, BTTB did not have sufficient interconnection capacity to meet the service demands of the mobile service providers. Consequently, the growth of mobile subscribers was constrained by the number of interconnections to the national phone system. Even with each mobile operator's limited number of subscribers, users experienced significant frustration and often had to try for over an hour to place a call from a mobile phone to a fixed line number in Dhaka.

These interconnection problems were more acute for mobile subscribers in rural areas. In 1996, the rural mobile phone market was licensed to two operators with exclusive rights for 25 years: Sheba Telecom, which covered the southern villages (195 thanas), and Bangladesh Rural Telecom Authority (BRTA), which covered the northern villages (199 thanas). However, these operators were unable to provide extensive rural coverage because BTTB had not provided for sufficient interconnection to meet rural demand. Although more phones could be deployed, users would have experienced significant problems when they tried to call a phone of another operator.

Because it had been granted a nationwide mobile license, GrameenPhone could also provide rural mobile service. Moreover, GrameenPhone had obtained a better interconnection

agreement with BTTB than BRTA and Sheba. This arrangement, together with GrameenPhone's ability to deploy phones on the rural fringes of its urban coverage and along its network corridor, enabled GrameenPhone to offer much wider rural coverage. However, as GrameenPhone's subscriber base grew, the interconnection agreement was unable to keep pace with demand and its customers experienced increasing interconnection problems.

In response to these interconnection hurdles, many mobile service providers, including GrameenPhone, offered phones that could connect to other mobile subscribers but not to BTTB's fixed lines. However, it was very difficult to convince customers of the value of having access only to other mobile phones. Customers would be unable to access even emergency services like the ambulance or fire department, because these public services were on the BTTB's fixed-line network. Moreover, Telenor had come to Bangladesh to pursue a full-scale mobile telecommunication business, not just a mobile-to-mobile business.

In addition to the interconnectivity problems, the mobile service providers were subject to monopolistic control by BTTB that limited revenue sharing arrangements for international calls and denied them revenue sharing for national calls. Also, BTTB refused to allow other technologies to be used (such as VSAT), further restricting connectivity. The continued lack of an independent regulator allowed BTTB to maintain monopolistic behaviour in these areas. The telecom sector was still regulated by outdated acts like the Telegraph Act of 1885 and the Wireless Act of 1893. Their antiquated policies were inadequate for dealing with Bangladesh's challenges in the modern, privatised telecom sector.

### **From Start-up to Big Business: "It is not a Baby now"**

While the problems posed by the macro business environment in Bangladesh were significant, GrameenPhone also had to address issues within the company. When GrameenPhone was born it was a majority stake, start-up venture for Telenor. This meant that Telenor was involved in launching GrameenPhone from day one, and was exposed to the full gamut of pioneering experiences. Over 30 expatriates from Telenor flew down to Bangladesh and were involved in activities such as installation, sales, marketing, technical development and rollout plans. In seven years, GrameenPhone had been transformed from a company with a limited number of customers and with a start-up culture, to a rapidly growing big mobile telecommunications operator. According to EMC, the London-based market research company, GrameenPhone was already the largest mobile phone company in South Asia, and was consolidating its position in Bangladesh as a dynamic yet mature operator. GrameenPhone was aiming to double its subscribers to 4 million by 2005, and to 8 million by 2007. This growth would require the "baby to grow up." This significant growth potential could only be realized through accompanying changes in the corporate organization and culture. Clearly, there would be a need for more professionally trained managers, engineers and staff.

A related dilemma was about the pace of growth in Bangladesh. While demand for mobile telephony services was growing at a rapid pace, there were likely to be important supply-side constraints. One concern revolved around BTTB's monopolistic regulations regarding interconnectivity, which put a question mark on how much GrameenPhone could hope to grow even though there was significant market demand. In addition, with growing demand, GrameenPhone would need to invest in an independent fibre optic network to seamlessly interface with its present radio-frequency-based network. In 2004, GrameenPhone was

constructing (and with growth would need to continue constructing), about 80 to 100 new base stations a month. This meant significant ongoing capital expenditure and the continuous need for skilled technicians, construction companies, contractors and suppliers.

### **Developing Local Management to Run Big Business**

The rapid growth of GrameenPhone, and the booming growth expected in the future, encouraged Telenor to look into developing a pool of talented local managers in Bangladesh to run a big company. Here the challenge lay in effectively recruiting and training across the entire organization: from senior managers in leadership positions to technicians skilled in managing networks. In Bangladesh, unlike in neighbouring India, such expertise did not then exist. Besides, Bangladesh did not have many big industries from which talent could be attracted. If anything, the problem was the opposite. The talent that GrameenPhone developed was often grabbed by other new multinationals, leading to a technical brain drain from GrameenPhone. Training and retaining talent at GrameenPhone represented an ongoing challenge, one that was expected to increase in intensity over the coming years.

### **Increased Competition**

Another challenge faced by GrameenPhone was the increasing competition from other telecom providers. This competition required GrameenPhone to change its resource allocation within the company, from stimulating primary demand to capturing secondary demand. Further, competition was expected to intensify, and perhaps “get dirty,” with the probable launch of a BTTB-owned mobile company, which, most believed, would have preferential status from government patronage. Although, GrameenPhone had “developed enough muscle” to withstand and thwart the more typical competitor, it was still dependent on BTTB for its domestic and international interconnectivity. Ideally, GrameenPhone would have liked to have its own frequencies for the international gateway and be less dependent on the BTTB, but this would not be easy.

### **Changing Face of the Customer: “The Novelty is Diminishing. The Awe is Gone.”**

Another challenge for GrameenPhone lay in the changing face of the customer in Bangladesh. Increasingly, a higher proportion of new mobile phone subscribers in Bangladesh were more cost-conscious, tech-savvy and demanding young people. Further, while previous call patterns were for “special” uses, such as to communicate with relatives overseas, calling the local agriculture market or a medical doctor, mobile phones became increasingly seen as a “natural” way of connecting. This new segment of the market would require a new marketing approach if GrameenPhone was to ride the future wave of mobile telephony in Bangladesh.

### **Changing Nature of the Village Phone Enterprises**

By mid-August 2004, there were 70,000 village phones in over 40,000 villages in Bangladesh, often with two to three in some villages. These village phone ladies were now competing with each other and were willing to lower their profit margins to attract customers. Further, some of the village telephone operators, who received a 15 percent cheaper airtime rate than the regular urban GrameenPhone customers, were moving out of their village and offering services in small towns. Often these village telephone ladies would aggressively cut

prices, which they could afford to do due to their higher margins, and in effect were becoming competitors of GrameenPhone itself!

### **How to Reach “the Bottom of the Pyramid”**

One key challenge was how to make inroads into the “bottom of the pyramid” in Bangladesh. In 2004, it was financially viable for GrameenPhone to attract customers who spent an average of \$10 to \$12 a month (about 8 to 10 percent of their monthly income) on mobile telephony. The next phase in GrameenPhone’s growth required that it tap customers who could only spend about \$5 to \$6 a month on mobile phone usage. This meant GrameenPhone needed to develop economies of scale, build cheaper distribution channels and sell cheaper phones. For instance, one idea being explored was to market the equivalent of a US\$1.00 pre-paid scratch card (in the local currency), as opposed to the typical US\$10 card currently sold.

Another suggestion to reach the bottom of the pyramid, though admittedly proposed by a minority within Telenor, was to collaborate with competitors and consolidate the village phone operation under one umbrella, possibly Grameen Telecom. Grameen Telecom in its current state and on its own could not rapidly expand its VPP to all the villages in Bangladesh, as it could expand only along the network corridor being built by GrameenPhone. This in turn, was being built primarily to serve its urban customers. Grameen Telecom could potentially partner with the rural operators, Sheba Telecom and BRTA, to expand VPP coverage. Telenor management was not sure about this idea of partnering with its competitors to help a small part of its business (VPP revenues represented only about 6 to 8 percent of GrameenPhone’s total revenues).

### **Expansion Beyond Bangladesh**

Some strategists within Telenor advocated expansion to other developing countries. They pointed to successful Telenor ventures in Thailand, Malaysia and Hungary, where problems of corruption, political instability, lack of an independent regulator and antiquated telecom regulations were not as acute. Some of Bangladesh’s neighbouring countries were growing faster and providing higher returns.

*The Foray into Pakistan: “We would not have dared to go to Pakistan if it was not for Bangladesh”*

As a result of these discussions, in the summer of 2004, Telenor purchased a mobile telephone license in Pakistan for US\$291 million. There was an overwhelming belief within Telenor that, “This could not have been done without the rich experience gained in Bangladesh.” In fact, there was no other major international bid for the Pakistani license. “Nobody had the guts to venture there,” noted a senior manager in Telenor’s headquarters. Thus, the intellectual, managerial, and structural capital and know-how gained in Bangladesh was a key determinant of this foray into Pakistan. Interestingly, the top management team in Pakistan was made up of Telenor managers from its Norway, Hungary, Russia and Bangladesh operations. Thus, Naila Chowdhury, who was head of Customer Service at GrameenPhone in Bangladesh, was moving to Pakistan. Clearly, the intellectual, structural, and human resource capital gained in Bangladesh was flowing into Telenor’s other business geographies.

## Telenor Corporate Strategy and CSR

In addition to discussions about a specific future strategy for its Bangladesh operations, some views were being expressed in Telenor's corridors about how to formally integrate corporate social responsibility (CSR) into Telenor's corporate strategy. Telenor's Bangladesh operations were clearly influenced by CSR discussions. Those who were closely involved with the Bangladesh operations, including Tormod Hermansen, had seen what a difference they had made in the lives of the villagers in Bangladesh, while Telenor continued to earn profits. From a business perspective, it was argued that the need of the hour was for Telenor to develop a core competence that it could sustain and that could serve as a basis for competitive differentiation. Telenor's very survival, especially during tough economic times, could depend on its ability to do so. Telenor's vision should be to strengthen its culture, values and equity around being socially responsible, and at the same time earn good profits for its stakeholders. Finally, this group pointed to Telenor's mission and vision, which clearly propounded 'good business and good development'. They wanted Telenor to more overtly walk this talk of doing both social and economic good in their existing and new global ventures. Certainly, they did not want corporate social responsibility at Telenor to mean just "showcasing" one initiative in Bangladesh. There was a growing commitment to do more of the same in other countries, and in other Telenor businesses.

As discussions progressed, it became apparent that while all these issues were important, they needed to be prioritised. Which should come first: the immediate growth in Bangladesh, growth in other geographies where Telenor's unique style of multiple-bottom line business would succeed, or a slow but steady transformation of the organization as a whole? It was also clear that while both objectives – business and social – could be equally important, none should try to compromise or compensate for the other. These questions occupied Hermansen's successors, both at Telenor HQ and at GrameenPhone. Hermansen himself was happy that success in Bangladesh had sparked a broader discussion regarding Telenor's values and long-term goals and strategy. For a visionary business leader, this was a very satisfying, if serendipitous, outcome. But for Erik Aas, the Chief Marketing Officer of Telenor's Malaysian subsidiary, DIGI Malaysia, who was getting ready to take over the reins as the new CEO of GrameenPhone on 1 December 2004, the burning question was more immediate: How should he prioritise the various issues facing GrameenPhone and what would be the best way forward when he takes over as CEO?

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