THE INTERNATIONALIZATION OF PORTUGAL TELECOM AND ITS IMPACT ON THE COMPANY’S ORGANIZATIONAL STRUCTURE

Manoel Justiniano Melo da Fonseca
manoelfonseca@pms.ba.gov.br

Joaquim Ramos Silva
jrsilva@iseg.utl.pt

Ana Maria Ferreira Menezes
anammenezes@hotmail.com
THE INTERNATIONALIZATION OF PORTUGAL TELECOM AND ITS IMPACT ON THE COMPANY’S ORGANIZATIONAL STRUCTURE

Manoel Justiniano Melo da Fonseca*
Joaquim Ramos Silva**
Ana Maria Ferreira Menezes***

Abstract: Foreign direct investment (FDI) inflows have been expanding in Brazil since the mid-1990s. Portuguese enterprises have been prominent in this activity, most notably exemplified by the acquisition of Telesp Celular by Portugal Telecom (PT) in July 1998. PT’s process of internationalization has been characterized by its entry into new markets in which strong linguistic and cultural ties with Portugal exist. The organizational structure is established on a basis that aims to achieve the goals of the firm that derive from its strategy. Therefore, it follows that strategy and organizational structure are closely interconnected. PT has clearly defined its internationalization strategy, and it is highly illustrative, in global terms, to observe how this strategy has influenced the organizational structure. The main objective of the present study is thus to analyze the changes in the organizational structure of PT deriving from its internationalization. Firstly, we will investigate the process of internationalization of PT to Brazil from the perspective of this country’s economic and institutional context. Secondly, we attempt to conceptualize the organizational structure of an internationalized firm. Thirdly, we analyze how PT has embedded its internationalization strategy within its organizational structure. It is clear that the PT Group has continued the process of corporate restructuring, embarked upon in 1997, with the aim of making its organization more flexible, and thereby better equipped to reap more benefits from the internationalization. Fourthly and finally, we present some concluding remarks on the link between PT’s internationalization strategy and changes in its organizational structure.

Keywords: internationalization strategy, organizational structure, foreign direct investment; Portugal Telecom Group.

* Universidade do Estado da Bahia (UNEB), Salvador, BRAZIL.
** SOCIUS and Department of Economics, ISEG/Technical University of Lisbon.
*** NUPE and Universidade do Estado da Bahia (UNEB), Salvador, BRAZIL.
1. The internationalization process of Portugal Telecom to Brazil: the contextual setting

The process of globalization of capital during the 1990s was characterized by the strong presence of transnational companies, which increasingly provided goods and services in different domestic markets, and by the expanding production of knowledge and information, which influenced market prices and the allocation of factors of production (Jorge, 2008: 7).

In the Brazilian context, the principal objectives of the reforms introduced during that decade were economic deregulation, leading to the dismantling of tariff barriers and the removal of restrictions on foreign capital, liberalization of the foreign sector in order to increase international trade relations, and privatization of public services and state manufacturing industries. After decades of hyperinflation and other macroeconomic disequilibria, a period of stabilization for the Brazilian economy was ushered in through the implementation of the Real Plan in 1994 (Menezes and Fonseca, 2003).

In this new environment, foreign direct investment (FDI) achieved an increasing predominance over other types of foreign capital inflows in Brazil, due largely to the more favorable conditions for investment in production, and to the structural reforms related to privatization, as mentioned above, which were supported by various pieces of legislation. These included the Constitutional Amendment N.º 08 of 15/08/95, which eliminated the state monopoly on telecommunications services, the Law 9472 of 16/07/97, which regulates the concession of these services, and the Law 9491 of 09 / 09/97, which removed the limits on participation of foreign capital in privatized companies (Fonseca, 2004).

According to Charlton et al. (2003), several other reasons can be identified as stimuli that attracted FDI inflows to Brazil, such as:

- The distributive impact of the Real Plan to the benefit of lower-income groups of the population, which can be analyzed by sector and by regional dimensions: growth in demand for durable and non-durable goods became particularly strong among those groups, as well as among the middle classes; the growth of demand in the poorer regions was higher than the national average – satisfying the consumption potential of these segments of the population, signifying a substantial increase of the market.
- The consolidation of the “Mercosul”, the regional integration process (composed, at that time, of Brazil, Argentina, Paraguay and Uruguay), which was achieved by means of regulatory reforms favoring the liberalization of trade, investment and domestic competition; thus, the resulting facilitation of economic relations between member-states functioned as a magnet for FDI.
• Trade liberalization combined with regulatory reform and competition among sub-national levels of government (fiscal war) in order to attract investment brought about two types of effects on the location or relocation of production in Brazil. One effect entailed a process of industrial decentralization away from the historically powerful São Paulo region, in favor of other areas in southern and south-eastern regions of the country. The second effect was the relocation of some production from the south and south-east to industrially deprived areas in the north, north-east and central west.

Therefore, in the mid-1990s, favorable conditions emerged for a massive entry of FDI in Brazil, among which Portuguese investments were in the vanguard. Indeed, the Luso-Brazilian economic relations had been expanding since the beginning of the 1990s, and the increase of Portuguese investments after 1995 was undoubtedly the strongest evidence of the new course in the bilateral relations, following several decades of stagnation (Silva, 2002). Certainly, at the beginning of the decade, few Portuguese firms were investing in Brazil, while by the start of the new century, hundreds were well-rooted in the Brazilian market, and a number of them had, in fact, become Luso-Brazilian in terms of the dimension of their business. We must emphasized:

The crucial role of FDI in this process is noteworthy since the mid-90s, particularly from Portugal to Brazil. Indeed, between 1995 and 2002, Brazil was one of the three top destinations of Portuguese FDI (in general, alternating positions with Spain and the Netherlands), (...). Furthermore, in early 2002, it was possible to identify some 370 subsidiaries of Portuguese firms operating in Brazil (in very diverse sectors, such as infrastructure, energy and cement, agro-food production, the new information and communication technologies and tourism). (Silva, 2003: 24)

In Brazil, the flow of FDI related to the privatization program (US $ 29.6 billion) represented approximately one quarter of total net foreign direct investment (US $ 112.6 billion) between 1996 and 2000. In 2001, net direct foreign investment totaled US $ 22.5 billion, but fell to US $16.6 billion in 2002 (Banco Central do Brasil, 2002). Among the main causes of this downturn were the reversal of inter-firm loans and the relative exhaustion of the privatization process. In 2002, inter-firm loans recorded net outflows of US $ 528 million (although they had provided a net income of US $ 3.7 billion in 2001) and there was only one privatization transaction, worth US $ 280 million, for the Telebrás System (id.). According to the same institution (Banco Central do Brasil, 2004),

1 All quotations of references in Portuguese were translated into English by the authors and they are solely responsible for them.
the result of FDI inflows to Brazil must be seen in the context of the recovery of the international flow of FDI in 2004 when global FDI amounted to US $ 612 billion, ending the cycle of decline started in 2001.

In the following years, Brazil continued to remain an attractive destination for FDI, as well as for other loans and financing, widely accepting international placements at favorable rates. In 2007, FDI inflows to Brazil reached a record US $ 34.6 billion, an increase of 83.7% up on 2006 and surpassing the high income recorded from 1998 to 2001, years in which the inflows were related to the program of privatization described above. This evolution is expressed by the increase in the stock of FDI, which totaled US $ 328.5 billion in 2007 (BANCO CENTRAL DO BRASIL, 2007: 141 and 145). To place this process in a global framework:

According to estimates of the United Nations Conference on Trade and Development (UNCTAD), the annual flow of foreign direct investment (FDI) in the global economy has peaked a record US $ 1.5 billion in 2007, bringing up 17.8 % on the previous year and being the fourth annual result in positive sequence. FDI inflows, which showed widespread increase for all groups of countries, grew 16.8% in the group of developed countries, which absorbed US $ 1 trillion of the annual flow, and 19.5% to all developing and transition countries, which received US $ 536 billion. (id., p. 142)

In the context of increasing global FDI it is worth highlighting the Portuguese investment in Brazil, which in the period 1995-2001 grew at a very high rate (SILVA, 2005), enabling the strengthening of economic relations between the two countries. The most significant element in this process was the acquisition of Telesp Celular (State of São Paulo) by Portugal Telecom (PT) in July 1998, as part of the privatization process of Telebrás (FONSECA, 2004). Furthermore, this operation constituted a strengthening of relations between the Portuguese and Brazilian economies in the key sector of telecommunications, which has been the stage of major innovations and structural modernization in recent decades.

According to the BCB annual reports of 2002 and 2004, the amounts of Portuguese FDI in Brazil were: equal to US $ 1,692 million in 2001, equal to US $ 1,019 million in 2002, equal to US $ 202 million in 2003, and equal to US $ 571 million in 2004. These figures demonstrate that Portuguese investment followed the general pattern of reduction in total FDI from 2001, although a slight recovery took place in 2004.

Hence, Brazilian privatizations made possible the entry of Portuguese capital in the telecommunications sector. The largest Portuguese investment in Brazil in the sector was made by Portugal Telecom (PT), with the acquisition of the holding company Telesp Celular Participações, which was subsequently merged with Telefónica’s mobile assets in Brazil, creating the brand Vivo – a joint-venture owned equally with Telefónica Móviles. Vivo is currently the lar-
gest mobile phone operator in South America and the world’s fourth-largest company in this industry, with 45 million customers. As a consequence of the acquisition, the financial health of the PT Group became closely linked to the results of Vivo and to the future of the telecommunications market in Brazil, which is clearly reflected in the fact that its contribution to the total revenue of the Group in 2008 was 46% (PORTUGAL TELECOM, 2008).

The process of internationalization of Portugal Telecom was presented as a crucial component of the company’s strategy in 1997, in order to achieve growth and to meet the challenges of a new era of extremely rapid, profound changes. This strategy is expressed in the Annual Report and Consolidated Accounts in the following terms:

International operations will have a growing role in the development of the Group, enhanced by the agreements of strategic alignment, opening up new perspectives in the next few years with the implementation of major investments, notably in Latin America, Brazil in particular, and Africa, in the areas of the Maghreb and countries whose official language is Portuguese. (PORTUGAL TELECOM, 1997: 22).

This strategy was reaffirmed in the Annual Report and Consolidated Accounts for 1998, as is clear in the following extract:

In terms of international operations, they steadily continued our strategy, to guarantee, in emerging markets where we have competitive advantages and natural interests, the bases for future growth and sustained business of PT, given the limitations imposed by the liberalization, the size and maturity of the domestic market. (PORTUGAL TELECOM, 1998: 06).

Indeed, the internationalization strategy of PT had been defined in 1997, through the agreements of cooperation with its strategic partners, the objectives being the acquisition of 1% of the share capital of Telefónica and acquiring a holding in Telebrás. This strategy became a reality in 1998 with the investments in the Brazilian telecommunications market, with the acquisition of important shareholdings in Telesp Celular, Telesp Fixa and CRT – Rio Grandense Telecommunications Company, which presented very favorable conditions for growth. With these acquisitions, Portugal Telecom implemented its strategy for its entry into new markets with strong growth potential in countries in which PT had crucial advantages, stemming from its linguistic and cultural links, added, naturally, to its business know-how. These factors have been determinant in PT’s process of internationalization.

Despite the prioritization of the Brazilian market, it should be added that the PT Group, with its recent expansion, has attained a broad international presence, with investments in the following countries: Hungary, East Timor,
Macao, Mozambique, Kenya, Angola, Namibia, Sao Tome and Principe, Cape Verde and Morocco. Thus, it is noteworthy that:

The whole essence of the strategic vision in the administration can be summarized in the idea of building, on the organizational level, a position that is strong enough to indicate a way forward with clarity and sufficiently flexible to be changed according to new environmental conditions (Motta, 2001: 92).

A clear indication of a “way forward”, according to Penrose (2006), is determined by “expectations”, rather than by “objective facts”,

‘Expectations and not ‘objective facts’ are the immediate determinants of the behavior of a firm, although there may be some relationship between expectations and the ‘facts’. Indeed, there will be some relationship, if the action wants to be successful, since the success of the plans of a firm depends on the implementation of them, and partly on whether they are based on wise judgments about the possibility of successful actions (id., p. 85).

Given the aim of analyzing the expectations of the strategy of Portugal Telecom’s internationalization and its impact on the organizational structure, it is first necessary to understand what an organizational structure consists of, in order to know how the specific organizational structure of PT was modified to support the strategy defined in the late-1990s.

2. Literature review

In terms of organizational structure, it is observed that: “the scarcity of resources and the high operating costs make the problem of designing the organizational structure more urgent and crucial if the organization is to be successful” (Neves, 2001: 469). According to the same author, the organizational structure can be defined by the way that: “the various bodies and the hierarchical levels of the organization are related, in addition to its functioning and the procedures for the coordination of efforts aimed to achieve the objectives” (id.).

The practice of management by objectives has brought about great progress in the design of structural flexibility. The search for new models of this kind requires the dismantling of the barriers imposed by rigid notions of structure, based on the belief that through labor specialization, the hierarchy and distribution of authority; it is possible to determine a uniform and predictable human behavior.

Mintzberg (1979: 2) defines organizational structure as “the sum total of the ways in which it divides its labor into distinct tasks and then achieves coordination among them.” Therefore, if, in principle, there is no best way to structure or pre-design an organization, then there must also be a constant consideration of alternative ways to structure, anticipate and adapt to constant changes in the social environment.
With the emergence of large corporations provided by the development of world economy in recent decades, there are changes in organizational structures, especially through the incorporation of multi-divisional structures (MINTZBERG, 1995). According to this author, under this form of organization, "power is given to the divisions to operate their own business. They control the operations and determine strategies for the markets under their responsibility" (id, p. 220). DUNNING and LUNDAN (2008) clearly underline the difference that the company's internationalization introduces in this process:

The multi-divisional form allows for some specialization of responsibilities. In a firm that produces and sells only in its domestic market, such specialization is likely to be either by 'product' (or activity) or by 'function' (or area) of decision making ... Once a firm engages in foreign transactions it is faced with new organizational challenges. These may be met in a variety of ways. Initially, the most likely response is for the firm to establish a new international division responsible for its foreign activities. The 'raison d'être' for such a division is that the firm perceives that, because of differences between the domestic and foreign political and economic environments and the added intra-firm communication costs, a new kind of arrangement is needed to organize and govern the value added activities conducted abroad. However, where these activities become extensive and/or where a multiproduct firm begins producing outside its national boundaries, then it is likely that each of the product divisions will be given responsibility for incorporating the foreign dimension into their sphere of control. (id., pp. 239-42).

The multi-divisional structure, although it may take several forms, basically consists of a set of autonomous divisions coordinated by a central office, with a corporate support that provides information about the internal and external environments and is organized by product lines, business units related to geography, and/or type of client (BEŞANKO et al., 2004).

The question of strategy should also be taken into consideration. In its origin, it reflected military concerns. However, the debate on strategic issues has considerably been widened in the administrative field, particularly after the 1980s, due to increased competition in various sectors (TEIXEIRA, 2006). At the international level, with the strong rivalry among multinational firms, and the generalization of oligopolistic behaviors (IETTO-GILLIES, 2005: 81-2), an analysis of their strategy and its consequences is particularly required and must be seriously taken into account.

While recognizing the existence of many definitions of strategy it may be defined as "a set of decisions set out in a plan or emerging from an organizational process that integrates the mission, objectives and sequence of interdependent management actions" (MOTTA, 2001: 82). Also, according to this author,

The need to study and apply the concept of management strategy has to be felt at a time where the speed of social change was increasing, and considering the economic policies that define the business environment. To the extent that
changes in the environmental conditions alter not only the possibility of achieving the objectives and desirable outcomes but also what is desirable. Hence, the need to develop alternatives or potential actions that guide and enable the reorientation of goals and ways of organization. (id., pp. 82-3)

In the setting of the organization’s strategy it must be noted that it influences the structure in order to satisfy the pursuit of its goals. Whenever there is a new strategy the organization must be deeply restructured, and without such a commitment the restructuring results in inefficiency.

Since the organization cannot survive on an absolute dependence on benign environmental variations, including the impossibility of predicting and understanding all the changes that occur, it needs some structural regularity in order to confront the external uncertainties. Although it is recognized that the structure can be determined or influenced by factors such as strategy, size and age, technology and environment, following the line of thinking adopted by NEVES (2001), his paper will only address the relationship between structure and strategy.

There are several approaches that emphasize the relationship between structure and strategy. For example, DAVID (2002) identified two main reasons not only to establish the relationship between structure and strategy but also to support the idea that changes in the strategy of an organization also require changes in its organizational structure. The first reason stems from the fact that the structure largely defines the policies and objectives that are established. The second reason can be identified in the fact that the structure determines how resources are allocated. Thus, the structural reorganization usually becomes part of the implementation of a strategy. It must also be noted the approach of Alfred CHANDLER (1998), for being a pioneer in demonstrating the dependence of organizational objectives and business strategies, and to apply it to the study of the links between structure and strategy of four large U.S. companies (Du Pont, General Motors, Standard Oil and Sear, Roebuck), in the 1920s and 1930s.

Thus, in the search for an ideal flexibility, it must be taken into account that the structures should arise naturally from the goals and organizational strategies, since when goals and strategies are clear and well-defined, there will also be knowledge of numerous structural alternatives in order to achieve the goals. More precisely, and following CHANDLER (1998):

The thesis that the different forms of organization result from the different types of expansion may be expressed more clearly if we consider that the planning and execution of this expansion is a strategy, and the organization created to manage the new activities and resources, is a structure. It can be said that strategy is the definition of the main objectives in the long term of an enterprise and also the adoption of programs of actions and allocation of resources in view of these objectives. Decisions in order to increase the number of activities, the opening of factories and offices in remote locations, the launching of new economic functions, and to diversify the business branches require the definition of new
basic objectives. (...) Since the adoption of a new strategy may not only demand new frameworks for staff and new buildings, but also modify the commercial prospects of those that are responsible for the company, it may have a strong impact on its form of organization. (id., p. 136)

Therefore, if the management introduces a significant shift in the strategy of the organization, it is necessary to adapt its structure to achieve such a change. The organizational structure is defined by Chandler as: “the model of the organization which manages the company” (ibid). Following this reasoning, Chandler considers that:

This model, formally or informally defined, presents two aspects. It includes, first, lines of authority and communication between different levels and the administrative staff, and secondly, the information and data that flow by these avenues of communication and authority. (...) The corollary of these propositions is, therefore, that the structure follows strategy and that the more complex kind of structure is the result of the conjunction of several basic strategies. (ibid., pp. 136-7).

As a result of what was mentioned earlier, the idea that the structure follows the strategy fully applies to companies that compete internationally. To the extent that there is growth of multinational companies there are strong pressures for coordination between countries and the specialization of countries in certain activities. Concluding, in more general terms, when we wish to increase the structural flexibility of an organization, we should also seek another way of establishing internal relationships, since changing a structure, despite being an apparent change in the system of authority and responsibility, primarily signifies the necessity to change a whole set of relationships and commitments, based on a previously established structural option.

3. Analysis of the changes in the organizational structure of Portugal Telecom after its internationalization

Insofar as the organizational structure is a means by which to achieve the goals of the organization, which derive from the company’s strategy, it is necessary for the strategy and the structure to be interconnected. Since Portugal Telecom adopted its strategy of internationalization, it is important to observe how this strategy has influenced the company’s organizational structure. Therefore, we proceed next with an analysis of the structural changes of PT, in chronological order, enabling us to identify the evolutionary process by which the company was transformed into the present Portugal Telecom Group. We start by observing, in Figure 1, the structure of PT in 1997, prior to embarking on the implementation of its internationalization strategy at large scale.
In 1997, Portugal Telecom entered into a partnership with the Brazilian enterprise, Telecomunicações S. A. – Telebrás for the purpose of seeking out potential investment targets and making the investments jointly in the telecommunications industry. The preferential markets were in Latin America and African countries whose official language was Portuguese (PORTUGAL TELECOM, 1997). This association strengthened the internationalization strategy and induced changes in its structure in relation to that of a firm exclusively or almost exclusively dependent on the domestic market.

The structure of the Portugal Telecom in 1997 had as its main feature a multi-divisional form. Thus, PT was responsible for the provision of local telephony service, by the Marconi long-distance service and international TMN mobile telephony, the TELEPAC data services and internet, TV Cabo Portugal by the cable TV and interactive. PT International companies had interests in telecommunications in Africa and Brazil, through a small stake in Telebrás and other investments by bringing together various services, such as “Yellow Pages”. This framework points to an organization of the PT that is consistent

Fig. 1 – Structure of the Portugal Telecom Group – 1997
with what MINTZBERG (1995), BESANKO et al. (1999), and DUNNING and LUNDAN (2008) identify as the structure of large international companies at an initial stage of their internationalization strategy.

The year 1998 was to be a milestone in the Portugal Telecom Group’s growth, since in this year, as previously mentioned, the decision was taken to invest strongly in the Brazilian market through the acquisition of Telesp Celular. Prior to its privatization, Telesp Celular was a state enterprise belonging to the Telebrás System, which operated the mobile telephone service in the State of São Paulo. It was sold to private capital in accordance with the new model of development of sector as defined in 1997 by the Brazilian National Telecommunications Agency, ANATEL.

As a consequence of this acquisition, in 1998, the PT Group redefined its structure, setting up the units into four business areas: Fixed Network, Mobile, Multimedia and International Business. Also in 1998, the new Portugal Telecom brand was launched. The PT Group continued with the process of corporate restructuring begun in 1997, with the aim of improving the organization’s relationship with the market by directing its modus operandi towards a clearly customer-related policy (PORTUGAL TELECOM, 1998). This can be observed in Figure 2.

![Fig. 2 - Structure of the Portugal Telecom Group - 1998](image)
Manoel Justiniano Melo da Fonseca, Joaquim Ramos Silva, Ana Maria Ferreira Menezes

The organizational structure of the PT in 1998 was restructured in four business areas, as reflected in the figure. The fixed business, however, kept the divisional structure for services offered, related to the infrastructure of fixed telephone. The company also created an area of mobile business, including here only the TMN. As far as international business is concerned the operations in Brazil appear separated from other investments.

In 1999, PT underwent a profound process of corporate reorganization. In broad terms, the new model was based on the creation and redefinition of autonomous entrepreneurial business units (as was pointed out by Mintzberg, 1995), controlled by a holding company, Portugal Telecom SGPS, SA. One of the strategic objectives related to the reorganization was to increase the visibility of the various businesses of the group, which explains the creation of PT Multimedia. A new division, PT Communications, came into being as the final structure of the reorganization. It was given responsibility for the fixed telecommunications network and the group of support companies (Portugal Telecom, 1999), as can be observed in more detail in Figure 3.

First phase of the Group’s reorganization

At the top of the final structure is an holding company, PT, Sociedade Gestora de Participações Sociais – SGPS, SA


Fig. 3 – Structure of the Portugal Telecom Group – 1999

In 2000, the next step of the reorganization involved the start of the process of incorporating Marconi into PT Comunicações, which was concluded in 2002. This highlighted the importance to the group of PT Prime, which was designated as a new business unit. In addition, in the new model, PT Mobile was established, with responsibility for the management of the Portuguese mo-
bile phone operator, TMN and the Brazilian Telesp Celular (PORTUGAL TELECOM, 2000), as shown in Figure 4.

In this new structure, the multi-divisional model of PT includes not only a division based on the provision of services, such as mobile services, including TMN and Telesp Celular, but also it was organized by type of customer, such as in the case of PT Prime.

![Structure of the Portugal Telecom Group – 2000](image)

In December 2002, with the consolidation of PT’s investments in the Brazilian telecommunications market, Brasilcel was created. This was a joint-venture between Portugal Telecom and Telefónica Brazil Móveis, which launched Vivo in April 2003. Figure 5 depicts all the changes implemented in the organizational structure of PT in 2002 as a consequence of the internationalization process and the broadening of the group’s central objectives as described above, particularly with regard to the consolidation of investments in the Brazilian market (including Brasilcel/Vivo as the mobile business of PT). Moreover, in 2002 the multi-divisional model of the PT is again organized in business units, including PT Prime as fixed business. In this new configuration relevance is given to support companies.

The year 2003 was characterized by a highly adverse economic environment; the Portuguese economy not only registered a sharp decline in consumption and investment, but even suffered a decrease of GDP. The Portugal
Manoel Justiniano Melo da Fonseca, Joaquim Ramos Silva, Ana Maria Ferreira Menezes

Telecom Group was able to overcome the poor economic climate with a good performance at the operational and financial levels. The adverse economic conditions called for a continuous effort to reduce costs and to reinforce links between the various businesses, endeavoring to profit from synergies and seeking to increase the ability to generate more cash flow. Thus, in 2003, the structure of fixed network business was maintained, grouping PT Comunicações, PT Corporate, PT Prime and PTM.Com under one operational umbrella. However, the mobile business was again separated into the national and international branches, the latter integrating all of the investments made in Brazil and Africa (PORTUGAL TELECOM, 2003), as can be observed in Figure 6.

In November 2007, PT Multimedia was separated from the PT Group, by means of a spin-off, which consisted of the free distribution of PT Multimedia shares to shareholders of Portugal Telecom. By the end of 2007, the PT Group was structured by its lines of business, corresponding to four major sections: fixed network business, mobile business in Portugal (TMN), international business including Vivo, and the support companies.
The inter. of PT and its impact on the Company’s Organizational Structure, pp. 209-230

The business units were coordinated by the holding company of the PT Group, led by its Executive Board and with the support of the Corporate Center. Companies participating in the holding company reported to the Corporate Center, functionally rather than hierarchically, enabling an effective coordination of the group’s activities (PORTUGAL TELECOM, 2007). This structure corroborates the ideas of Besanko et al. (2004). This new structure of the organization can be seen in Figure 7.
Concomitant to the strategy of internationalization, with regard to its domestic business, PT started to implement a strategy of fixed-mobile convergence. Thus, PT entered into a new stage of transformation in order to face the challenge of technological convergence through the merger of PT Comunicações with TMN, moving towards joint-management of the business in Portugal. In so doing, PT went from being a structure organized on the basis of platforms, mobile and fixed, to a single structure, PT Portugal, focusing on the needs of each of the following segments: residential, individual customers, SMEs, corporate and wholesale. In addition, a television service was launched, which was one of the milestones of 2007; this new area of business became a key element in the strategy of consolidating activities in the domestic market (PORTUGAL TELECOM, 2008).

Portugal Telecom is currently structured into two organizational units: (I) Home Business, and (II) International Business. Beyond these two major areas of business, the structure of PT is supported by a group of support enterprises (PORTUGAL TELECOM, 2008), as detailed in Figure 8.

![Fig. 8 - Structure of the Portugal Telecom Group – 2008](source)
This structure of the PT Group is the result of the consolidation of its internationalization strategy, as well as the strategy adopted in 2007 to consolidate its leadership in the domestic market, through the convergence of the fixed and mobile telephony services. The Home Business branch consists of the following companies:

PT Comunicações, as observed earlier, was established in 2000, and today has the largest telecommunications infrastructure in Portugal. The fixed network has been 100% digitalized and has the largest customer base in the industry, exceeding 4 million installed telephones. As the market leader, it offers its customers a wide variety of services and solutions ranging from the services of the fixed telephone network, data communications, television and video-conferencing solutions to broadband (PORTUGAL TELECOM, 2008).

PT Prime – Enterprise Solutions of Telecommunication Systems, created in 1999, is the PT Group company which provides communication and information services and solutions to the business market, using the latest technology and best practices, with the focus on the client and quality of service (PORTUGAL TELECOM, 2008).

TMN, launched in 1991, is the mobile operator of the PT Group. It pioneered the Portuguese market, initially with an analogue network and then with a digital network with GSM (Global System for Mobile). The third generation network, with UMTS (Universal Mobile Telecommunications System) technology, was launched in 2004. TMN is the mobile service leader in Portugal with over 5.7 million customers.

Within the International Business branch, the holding company PT Investimentos Internacionais (PT II) is crucial to all the activities undertaken, with responsibility for identifying and developing new business opportunities worldwide. Established in 2004, PT II embodies the success and international vocation of the Portugal Telecom Group. It is the clear result of the commitment to internationalization developed in recent years.

The 19 international participations of the PT Group extend to 4 continents (America, Africa, Asia and Europe). PT Investimentos Internacionais is an integrated global company, with expertise in all areas of info-communication business, including providing mobile and fixed telephone, data, international carrier services, multimedia, satellite, e-business and directories (PORTUGAL TELECOM, 2008).

Most prominent among the companies of PT II is the 50% shareholding in Brasilcel, which holds 63.56% of Vivo, created in 2002. This is now the largest mobile operator in South America and the fourth largest company in the industry.
worldwide, offering data transmission services in broadband based on the third-generation network and a broad portfolio of products and services (PORTUGAL TELECOM, 2008).

The support companies: PT Sistemas de Informação (System services and IT), PT Inovação (Innovation, research and development), PT Pro (administrative services and shared management), PT Compras (trading services) and PT Contact (call centers and telemarketing services) play an important role in support of both domestic and international businesses.

4. Concluding remarks

The Portugal Telecom Group is the largest Portuguese business group operating nationally and internationally, and by far the largest in the telecommunications industry in Portugal, supplying a wide range of products and services in the field of information and telecommunications. These comprise local telephone services, international and long distance services, mobile phone communications, data and internet provision, satellite television, content and information systems, enterprise solutions and entertainment (PORTUGAL TELECOM, 2008).

Portugal Telecom defined a clear strategy of internationalization in 1997, resulting in a strong, visible impact on its organizational structure, which has been successively adapted to the new goals of the company in the following years. The structure as it existed prior to internationalization, geared to businesses that met the internal demand, has undergone a multiplicity of adaptations over the course of more than a decade.

The international operations have brought significant results to the PT Group and the trend is confirmed by the growing importance of the proportion of international business in the group’s total revenues. In 2000, the revenue from international business accounted for only 16%, while by 2008, the contribution had risen to 50%, the activities in Brazil alone representing 46% of the group’s total revenue. These figures signify an increase in revenue from overseas of over 200% in 8 years. Thus, we can observe not only the strengthening of financial indicators of Portugal Telecom, but also the impact of the internationalization strategy on the current organizational structure, given the performance of this business.

The size and weight of its international business to the PT Group as a whole are also significant with regard to the total number of customers. In 2008, there were 70 million customers worldwide, of whom 45 million were in Brazil. By 2007, international customers accounted for more than 80% of the group’s total sales base. Moreover, in 2007, a new strategy of fixed-mobile
convergence was established, with implementation carried out first in the internal market, which required further changes to the structure. The strategy adopted for PT’s current international operations continues to be guided by the mobile business, taking into account the sustained growth and consolidation of Vivo’s leadership position in the Brazilian mobile market.

As a result of this evolution, by 2008, the PT Group was an enterprise with a clear structural emphasis on international business. So, it is reiterated the idea that structure follows strategy and that this model is applied to companies that compete within the international context, as pointed out by several authors mentioned above.

Thus, we can conclude that despite its size, the influence of internationalization has led the PT Group to be constantly attentive to the need to refine, adjust and simplify its structure into a more flexible organization, which is able to respond more easily to the environment of the markets in which it operates.

References


