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Is Corporate Reputation Vital in the Telecommunications Industry?

**A comparison of TELMEX, CANTV and Verizon
Wireless**

By:

**Alejandra Montiel, Undergraduate Student
Florida International University**

Introduction

The telecommunications industry, a service based sector, is constantly changing and evolving as a result of technological advances and globalization. In the past the telecommunications industry was plagued with huge barriers to competition in the form of state-owned companies that held monopolies in their respective countries. Nevertheless, with changes in politics and economics, the barriers have been gradually removed and now the telecommunication sector has been able to become competitive. A move towards privatization in the telecom industry paved way to big companies like AT&T, Verizon and TELMEX to take advantage and dominate the industry today.

In the telecom industry a company must strive to redefine its objectives and establish better strategies for the future, in order to be successful and maintain a good reputation. “Corporate reputation generally refers to how stakeholders—customers, employees, vendors, shareholders, local communities, etc.—perceive the company” (The Reputation Challenge: p.1) Therefore, a company relies on internal and external feedback in order to compose a holistic view of its reputation. Some of the aspects important in Corporate Reputation are the following: financial performance, corporate social responsibility, trust, mission and corporate values, media exposure, Employment talent. This essay will investigate if good corporate reputation is critical in the telecommunication industry and how it is affected by the financial performance and other factors like media exposure, and company values. In order to develop a meaningful answer I will compare the following companies: TELMEX, CANTV and Verizon Wireless. Using the Code of ethics of the different companies, I will show how it affects the reputation of the company and explain how different factors affect it. Furthermore, I will use financial data to compare how companies that are better financially enjoy a better corporate reputation.

TELMEX a Success in Latin America

TELMEX, properly known as Telefonos de Mexico, S.A.B. de C.V., is a telecommunications conglomerate located in Mexico City. TELMEX provides telecommunication product and services throughout Mexico and other Latin American countries, which include voice, data, video and internet. The CEO and key figure at TELMEX is Carlos Slim (chairman) and the company is publically trade on BMV: TELMEX and NTES: TMX. This Mexican Holding Company has subsidiaries in Brazil, Colombia, Argentina, Chile, Peru and Ecuador (TELMEX.com). TELMEX is the leading company in telecommunications in Latin America, with sales in 2008 of 76,005 million Mexican Pesos and 28,477 employees and total assets of 131,513 millions of Mexican pesos. TELMEX has made investments of over 29 million of dollars from the years 1990 to 2005 to assure progress and the highest technology available. According to the TELMEX Mexico website, the company has developed a 100% digital platform that operates in a fiber optic system that also includes a submarine cable connection that goes

through 39 countries. According to an article from Forbes, TELMEX was in financial spotlight in the year 2002, and has continued on that track. In 2001, TELMEX sold an average of 23 million prepaid calling cards a month, probably the highest in the world” (Forbes). With innovations of this nature, TELMEX was able to become successful through Latin America. The company understood that the market of Latin America was different from the telephone market of countries like the US; hence, it developed ways satisfy its customers while being profitable. The article “The Top 500 companies in Latin America” lists the most profitable companies and TELMEX appears to be number nine on the list (BNET). In October 30, 2008 “announced that Standard & Poor's has assigned the Company a national scale rating CaVal of mxAA+. The outlook is stable” (S&P). That rating is great, which gives TELMEX a good reputation, in the face of investors.

TELMEX’s Code of Ethics

Aside from the financial performance of TELMEX, the company benefits from a good code of ethics and corporate social responsibility. The company’s code of ethics consists of the company s values and principles as well as the worker guidelines.

Mission: “To be a leading telecommunications group by providing our customers with integrated, high-value, innovative and world-class solutions, through human development and the application and management of state-of-the-art technology”

Vision: “To consolidate TELMEX’s leadership in the domestic market, expanding its telecommunications service penetration in all possible markets and be recognized as one of the best and fastest-growing companies in the world” (TELMEX Code of Ethics)

These statements clearly state the goals of TELMEX and how they satisfy the customers and shareholders needs. A good code of ethic, based on great mission and vision statement create a company that values trust and commitment. When the public feels that they can trust a company, they become committed and loyal to the company leading to better financial performance.

CANTV Back to Government Control

CA Nacional Telefonos de Venezuela, commonly known as CANTV, is a Venezuela-based telecommunications provider that was founded in the year 1930 and is publically traded at BVC: TDV.D. The company headquarter is in Caracas, Venezuela and the current CEO is Ernesto Paiva. CANTV provides numerous services for the Venezuelan population, such as: provides local, long-distance and international fixed and mobile telephone services, broadband network, data network, public telephone, and rural telephone and telex services. Through its subsidiaries: CANTV.net, Caveguías and Movilnet. The company’s network consist of about 3.6 million fixed telephone lines in service, 8.2 million mobile subscribers and 528 thousand broadband subscribers (CANTV.net). Due to recent political changes, CANTV was nationalized and now

operates under the control of the Venezuelan government. This process to nationalize the telecom company was recent, therefore there is not enough evidence to show if the new ownership has hindered the corporate reputation of CANTV.

Verizon Makes the Fortune 500 list

Verizon Communications Inc., commonly known as Verizon is a service provider of communication services in the US as well as 150 countries worldwide and was founded in the year 1983 as part of the Bell Atlantic. In 2000 it was finally transformed into Verizon Wireless, with its headquarters in Manhattan, New York City. Verizon is publically traded in the NYSE as VZ and its current CEO/Chairman is Ivan Seidenberg. Verizon provides Internet access, broadband video and data, next generation Internet protocol network services, network access, long distance and other services, proving services to consumers and businesses (Verizon.com). Recently in January of this year, Verizon Wireless acquired Alltel Corporation from Atlantis Holdings LLC., a major step for Verizon.

Due to its financial success Verizon makes number 17 of the top Fortune 500 list with revenues escalating to \$97,354 million USD and a net income of 6,428million USD makes Verizon is a powerhouse in the telecommunications industry (CNN Money).

Verizon's Code of Ethics

Verizon's mission is well defined in this excerpt from the code of ethics:

“We have work because our customers value our high quality wireless communications service. ...We focus outward on the customer, not inward. We make it easy for customers to do business with us, by listening, anticipating and responding to their needs. ...We believe integrity is at the core of who we are.... We know our best was good for today. Tomorrow we'll do better. We are Verizon Wireless” (Code of Ethics: Verizon)

From this statement, we can clearly see that Verizon is trying to appeal to the trust of the customers. Corporate Social Responsibility is also big at Verizon. Verizon's chairman and CEO Ivan Seidenberg lead the company's culture of corporate responsibilities. Just this year, Seidenberg accepted the NEA Foundation's Inaugural Award for Philanthropy in Public Education. Verizon received the award for its continuing support of education and literacy programs. The Verizon Foundation also has a free website Thinkfinity.org which is a free education resource for teachers, students, and parents.

Verizon's primary method is to “focuses on strategic priorities,” which allows the company to allocate resources for projects that “have the biggest impact on society” (Verizon.com). Verizon has established a Corporate Responsibility Council that is made up of some of its senior executives. The council has to identify the issues, and then it establishes priorities to integrate corporate responsibility policies into their day-to-day business operations.

Financial Performance and its Impact on Corporate Reputation:

Most empirical evidence confirms that a favorable reputation leads to higher financial performance and also creates a strategic advantage because it reduces competitive rivalry and barriers to market entry (Caves and Porter, 1977; Milgrom and Roberts, 1982). Hence, financial performance has been identified as a major predictor of reputation by being either a benefit or determinant. In order to demonstrate the validity of this statement I will compare the financial data of TELMEX, CANTV and Verizon. (p. 8)

Clearly, Verizon is the company with the most revenues, assets and net income and it surpasses the other two in by a very large percentage. Nevertheless, we have to take into account that Verizon, is an older company and it has a greater volume of employees. In a hypothetical scenario were only these three companies existed, and then Verizon would have about 85% of the employees and revenues, making an even greater financial powerhouse than it already is. **ROE** is one of the most important ratios that investors look at. It tests the success of a company using its investor's money and its shows if management is creating value at a good steady rate. According to different websites and articles, a good ROE ranges from 13% to 15% (Stock Market Investors). From the ROE chart, the only one that makes the cut is Verizon, and therefore it enjoys higher corporate reputation and revenues. On the other hand; ROA measures how much profit a company earns for every dollar of its assets. When comparing the ROA, TELMEX surpasses Verizon by a little and CANTV by half.

In comparison to other companies, TELMEX ROE is pretty low. For instance, Telefonica de Argentina TAR enjoys a ROE of 19.10% greater than the 4% that TELMEX has, but the ROA of TELMEX is comparable to the industry. Although these ratios are good indicators they are not the only determinants, we also have to take into account other financial and nonfinancial factors. Even though, TELMEX does not compare to the size of Verizon, it is considered to be a powerhouse in Latin America. A better comparison would be that of CANTV and TELMEX. It appears that for the year 2008 TELMEX had slight greater revenue than that of CANTV. When comparing the ratios of these two Latin American companies TELMEX has higher rates, and that could be the reason for which TELMEX is better known and has greater sales in Latin America.

CORPORATION	REVENUE USD	NET INCOME USD	TOTAL ASSETS USD	EMPLOYEES	ROE	ROA	Source
TELMEX	5,515,700,000	408,600,000	(about)10,274,000	28,477	0.0414	0.0431	Google finance
CANTV	4,159,800,000	525,377,720	3,613,603,990	9,468		0.0145	LexisNexis
Verizon	97,354,000,000	6,428,000,000	26,075,000,000	230,300	0.1393	0.0330	Google finance

Conclusion

In the telecom industry having good media exposure is vital towards the reputation of a company. Verizon and TELMEX, have an abundance of good media exposure through the following websites: The Reputation Institute, Fortune 500 and Forbes. Therefore, I conclude that through my research; TELMEX and Verizon have good corporate reputations and that is why they are financially successful. On the contrary, CANTV has steady financial performance; but it is not exposed to the public, so it is harder to determine its reputation stance.

After analyzing, the countries separately and comparing their financial data, I have come to the conclusion that corporate reputation is vital in the Telecommunications Industry. Good corporate reputations are important because of their potential for value creation. The existing empirical research confirms that there is a positive relationship between reputation and financial performance. Hence, companies with better reputations are more likely to sustain higher profit outcomes over time. Aside from that, an active role in society through sustained corporate social responsibility and a good code of ethics help determine the reputation of a company. Corporate reputation is a holistic view of the firms' internal and external performance.

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