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Change Management Strategies- South American Region

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Introduction

The South American region has metamorphosed as one of the newest markets as a result of economic strategy modifications introduced in the 1990s. Privatization, deregulation, and regional economic amalgamation have unleashed the thoughts and drives of the continent's industrialists and attracted the responsiveness of foreign stakeholders, while swelling commodities exports have enhanced the economies of such nations as Brazil (iron ore), Chile (copper), Bolivia (tin), and Venezuela (oil) One industry directly wedged by these rule changes is telecommunications. Once the quiet preserve of wasteful and overstaffed state-owned initiatives, the business has become a lure for new companies and new skills.

The most forceful competitor is Telefónica SA. Telefónica's executives knew all too well the difficulties of state-owned telecommunications monopolists, for Telefónica was just such a firm in its past semblance as government run Telefónica de España. Telefónica de España first attained its monopoly business on telephone services in Spain in 1924. Originally privately maintained, the company was nationalized in 1945, with the government holding outright 41 percent of the business's shares.

Thesis Statement : Investigating how the seeds of change that were established in 1986 paved way for Telefónica de España who was ill-equipped to handle the volatile growth in telephone service or the response of criticism emerge as the largest telecommunications provider.

Purpose of Paper: To examine the strategies adopted by Telefónica's leadership in handling and overcoming the risk posed by new entry from European competitors that promised lower prices, and smaller profit margins.

Overview of Paper: A leaner and more economical company developed as leaders cut fat, shed non-profit operations, and drove up investments in new technologies and services. With the EU-directed ending of state telephone cartels, Telefónica's managers challenged a new strategic problem: Should they change the range of their operations? Should they erect a stronghold in Spain and keep out EU competitors, grow into other EU markets, or do something else?

Moreover, as part of its single market resourcefulness, the EU declared that state-sponsored telephone monopolies would be stopped by 1998. Any European telecommunications firm would then be able to deliver service anywhere within the European Union. In analyzing their strategic selections, Telefónica's managers accepted they had a resilient position in Spain, and that local demand for telephone services would continue to develop in the relatively underserved Spanish market. Thus, they sustained the investment in innovative equipment and technologies there.

This methodology has worked: Telefónica has over 13 million indigenous fixed-line subscribers and 24 million cellular clients in its home-based market. Despite the EU's competition order, at the end of 2010 Telefónica kept 69 percent of Spain's fixed-line trade and about 41 percent of its mobile phone market. In measuring their international forecasts, Telefónica's managers decided that the company lacked economical advantage against European competitors like British Telecom and Deutsche Telekom, who had equal if not better access to the modern technology and managerial aptitude. That ruled out confronting other EU markets, at least originally.

However, they noted that many South American nations were about to sell their own state-owned

telephone controls, and that financing in these companies made tactical logic. Telefónica did have a economic advantage vis-à-vis local industrialists in accessing technology, capital, and managerial capacity. Moreover, because of language and ethnic ties between Spain and South America, Telefónica assumed it had a viable advantage over any of its European competitors who might wish to enter the South American marketplace.

Telefónica de España threw its raid of the South American market in 1990, when it acquired a marginal interest in Compania de Telefonos de Chile and an agreement to manage the southern part of Argentina's telephone system. In 1995, it purchased a bulk interest in Telefónica del Peru, that country's state-owned monopoly provider of telephone services. A year later it bought 35 percent of a district Brazilian telephone company at a state-sponsored sale. Telefónica also acquired securities in Argentina's largest cable company and a digital satellite TV supplier.

The Spanish government then traded off the last of its ownership position, making Telefónica de España exclusively privately owned. In 1998, the company changed its label to Telefónica SA—and paid $4.9 billion at sale to acquire control of the fixed-line and cellular operations of Telebras, Brazil's former state-owned telephone giant In 2000, Motorola sold its Mexican cellular service operations to Telefónica for $2.6 billion, while in 20Telefónica acquired 50 percent (plus one share) of state-owned Colombia Telecommunicaciones, making it the principal landline provider in that nation as well. All told, Telefónica has spent over $46 billion in South America. It is the biggest telecommunications corporation on that region and now has more landline consumers there— 24 million—than in Spain. Its wireless subsidiary, Telefónica Moviles, has 152 million clients in Latin America. It has followed the same design in each country it has entered: Cut excess payrolls brutally and expand capacity aggressively. For example, it laid off half of the 22,000 employees in its Argentine subsidiary while expanding its network there to 4 million lines. Telefónica's actions in South America have not lacked condemnation, however. Telefónica's strategies have been denounced by indigenous skeptics as "conquistador capitalism." After winning the Telebras auction, it moved speedily to increase service in Brazil's industrial center, São Paulo, while laying off thousands of staffs. This approach of doing more with less boomeranged, as messy interruptions in service led to several grievances.

Minority investors also grumbled that Telefónica charges its South American subsidiaries inflated management fees that decrease the worth of their interests. For example, its Argentine subsidiary pays 4.6 percent of its proceeds to Telefónica for management services provided by the parent company. Minority shareholders have also complained Telefónica's practice of transferring product lines with high development potential from the subsidiaries to the parent. For example, Telefónica formed Terra Networks SA to merge all of its South American Internet operations. It then traded to the public 30 percent of Terra Networks, retained the other 70 percent, and listed it on stock exchanges in Madrid and the United States. As part of this deal, Telefónica relocated the Internet operations of its Chilean subsidiary to Terra Networks for $40 million; minority owners assumed that the price should have been twice that figure. Minority shareholders in other subsidiaries have made related complaints. Similarly, Telefónica has been moving the telemarketing operations of its South American subsidiaries to an umbrella firm in Madrid, disagreeing that they would benefit from the economies of scale that a merged operation would offer.

Telefónica also faces some operational problems. Some are of its own doing: It was forced to pay $8 million in repayments in 1999 to São Paulo customers because of poor service. Others are not: It was forced to take a $300 million write-off for currency losses after Brazil devalued its money in 1998 and a €1.8 billion markdown of its Venezuelan assets in 2010 after the bolivar was devalued. Moreover, changes in government guidelines have increased competitive burdens. For example, Argentina and Peru began to deregulate their telecommunications industries in 2000, ending their dependence on monopoly delivery of telephone service. And Telefónica's achievement has attracted new rivals. In 1999, for instance, BellSouth signed up 1 million cellular phone subscribers in São Paulo, taking nearly 50 percent of that market in only 10 months of operations. But BellSouth directors were unhappy with the venture's success, and in 2004 Telefónica bought BellSouth's Latin American subsidiary for $5.9 billion, thereby excluding a well-funded, technologically sophisticated competitor.

Having built robust bases in Spain and Latin America, in 2005 Telefónica turned its considerations

back to Europe. It bought Çesky Telecom, the foremost provider of landline and mobile telecommunications services in the Czech Republic. In 2006, it bought O2, the biggest provider of mobile phone service in the United Kingdom. In 2007 it purchased a marginal position in Telecom Italia. In 2009, it paid €913 million for HanseNet, a German provider of telecommunications services. Telefónica now serves some 51 million European clients outside its Spanish home market. It also bought 5 percent of China Netcom in 2005, the second largest provider of landline service in China. In 2008, it decided to buy an additional 2.2 per- cent of that company for €309 million. After China Unicom acquired China Netcom, Telefónica entered into a tactical cooperation with China Unicom and increased its ownership of that company to 9.7 percent. 'Corporate Conquistadors' is another useful addition and evidence showing the extent of corporate influence over the political dialogues.

Conclusion

Generally, the approach adopted by Telefónica seems to work for the company. In 2010, it earned €10.2 billion on returns of €60.7 billion. Under the direction of César Alierta, the company's CEO since 2000, the company has become the world's second biggest telecommunications business measured by market capitalization. Telefónica now operates in 25 nations, with 41 million landline clients and 223 million mobile phone consumers.

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