CORPORATE GOVERNANCE AND AGENCY THEORY: MEGACABLE CASE

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Abstract

The objective of this research is to determine the importance of the implementation of a corporate governance system in the Mexican company Megacable in its development, from the review of the theoretical and empirical literature. Therefore, a descriptive and explanatory study was carried out that describes the concepts related to the aforementioned elements. and financial reports of two periods are analyzed, as well as the main attributes that explain the success of the company. Among the main results obtained are that the Megacable group is the cable operator; Mexico's largest internet and telephony in terms of subscribers, its structure as a controlling company that is managed through a series of subsidiaries and controlling companies and smaller operating companies in the same sector. It can be concluded that implementing efficient corporate governance among small and medium enterprises will have a clearer way of how to implement and execute the plans and best practices that will allow them to be leaders in their sector.

Keywords: Ethics, Corporate Governance, Better Practices, Business, Megacable

1. INTRODUCTION

The term corporate governance has gained a great deal of attention at the global level, especially after economic crises in some countries have exposed the relationship between the severity of such crises and the financial and economic situation of firms (CAF, 2010).

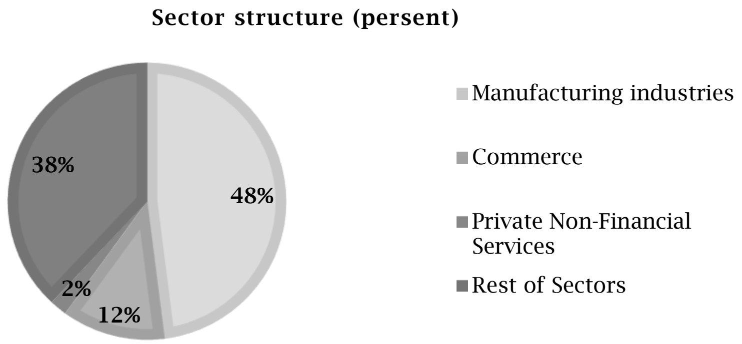
In the present investigation the importance of the implementation of a corporate governance system in the Mexican company Megacable in its development is determined, given that in Mexico, few newly created businesses manage to survive through the years, and where only a small proportion happens to the next generation of the family of the founders this happens mainly because these companies do not have a formal institutionalization and are not sustainable over time, which is why it is considered an area of opportunity for strengthening and growth from the same.

The following paper describes the advantages of implementing corporate governance within companies, given that in Mexico according to the Instituto Nacional de Economía, Geografía e Informática (INEGI) DENUE section there are around 5,654,014 (INEGI, 2014) companies, of which 99.81% are SMEs. Therefore, the objective is for micro, small and medium-sized enterprises to become aware of the importance of developing efficient corporate governance in order to generate competitive advantages, to become durable companies and therefore contribute to the development of the country. The national distribution according to economic activity is presented on the figure 1.

As can be seen in Figure 1 in Mexico, the most relevant sector corresponds to the manufacturing industries with 48%, followed by the rest of the sectors with 38%, the commercial sector with 12%. Finally, there are private non-financial services.

In Mexico, few new businesses survive through the years, and where only a small proportion passes into the hands of the next generation of the founders' family this happens mainly because these companies do not have a formal institutionalization and are not sustainable to over time. In Mexico, at the initiative of the Business Coordinating Council (CCE), the Committee for Best Corporate Practices (CMPC) was created, which issues the Best Practices Code (CMPC), establishing guidelines for better corporate governance of organizations. As of 2010, the National Banking and Securities Commission (CNBV) makes mandatory incorporation into the Code of Best Corporate Practices (CMPC) as a requirement to be listed on the Mexican Stock Market (González, Polo and Vargas, 2015). Corporate governance for practical purposes is a system through which a company is directed and controlled in the development of the business (OECD, 2006).

Figure 1. National sectorial structure



Source: INEGI, Economic Censuses 1989, 1994, 1999, 2004, 2009 and 2014.

Developing corporate governance brings multiple additional benefits to a long business life. Firstly, the facility for better financing conditions is achieved, since the company gains reliability by having a formal institutionalization. Secondly, it gains a higher valuation because an agreement arises between minority shareholders and shareholders which leads to incur lower capital costs and higher profitability. Thirdly, it is possible to increase the excellence in the operational area by making the objectives defined by the management of the company in the best possible way. Fourth, the risk in terms of financial crises is reduced. Finally, relations with other stakeholders are improved, including banks, bondholders, employees, local and national governments.

The corporate governance of a company involves establishing a set of relationships between the management of the company, its board of directors, its shareholders and other stakeholders (OECD, 2016). Companies need governance and this part of corporate governance, where the main participants are: owners, managers and the board of directors (Vargas, Guerra, Borjóquez, Bojórquez, 2014; Abdullah, S. N., 2011; Al-Baidhani, A. M., 2014), where the balance between these three actors determines the success for the correct governance of the company (Alshimmiri, T., 2004; Hutchinson, M. At al, 2009).

Finally, the integral model of corporate governance (Peng, 2015) becomes an angular block for the study of this topic, which each shareholder and manager must consider to create an efficient model. Given the above, the present investigation is oriented to emphasize the importance of applying and complying with an efficient corporate governance. Analyze case of Mexican company in the field of telecommunications.

2. BACKGROUND CORPORATE GOVERNANCE AND AGENCY THEORY

Since remote times have had the need to control, in the various situations that affect the human being, for example: time, finances, uncertainty etc., that is why at some point in history arose the need to control the finances of the company and its correct operation. Understanding of internal control is essential to the smooth running of companies. USA in the 70's promulgated the Law on Corrupt Practices Abroad (Fonseca, 2011) to protect themselves from questionable practices that were occurring in large corporations. In 1974 the leaders and presidents of the Central Banks of the Group of Ten decided to create a committee in response to the bankruptcy of a German bank that had generated a crisis in the international financial system.

In the 90's was the decade of the positioning of internal control where several studies are celebrated as: The Integrated Framework of Internal Control, the Control Guide in Canada, the Reference Framework for Internal Control Systems in Banking Organizations to mention some. The main signs of corporate governance are in the UK, where the Cadbury reports were published in 1992, Greenbury in 1995 and Hampel in 1998 (Álvarez, 1999). The Cadbury report aims to provide a "common vision of what to do about financial reporting and accounting", i.e. corporate governance (Gonzalez, 2000). With objectives aimed at providing reasonable assurance of: a) Effectiveness and efficiency of operations, b) Reliability of financial information and reports, and c) Compliance with laws and regulations.

On the other hand, the Greenbury report recommends that the annual reports establish the criteria for determining the remuneration of directors and the formation of the remuneration committee composed of non-executive directors (Fonseca, 2011). The Hampel Committee was created to conduct an assessment of the extent to which the Cadbury and Greenbury reports had been implemented for public companies and if the objectives were met (Fonseca, 2011).

In 1999 the Turbull Committee was established, which was addressed to the directors. For the same year, the OECD published the principles of corporate governance, which it establishes as one of 12 key standards to underpin global financial stability (OECD, 2010). In 2000, the OECD, together with the World Bank, created the Latin American Corporate Governance Roundtable. The first meeting was held in Rio de Janeiro, Brazil. And has been carried out in the country in 2008. All the initiatives of the round table have focused on adapting global recommendations to local circumstances (OECD, 2010).

The evolution of the Round Table has gone through two main phases: (1) raising awareness and building consensus (the "awareness and consensus building" phase) for the White Paper recommendations, covering its first four meetings in 2000 - 2003 (in Brazil, Argentina, Mexico and Chile); And (2) the "monitoring and implementation phase", focusing on encouraging the adoption of "White Paper" recommendations and looking more closely at selected priority issues (OECD, 2010).

The key issues addressed in this paper are:

A. Shareholders
B. Boards of Directors
C. Compliance - enforcement
D. Corporate governance codes
E. Corporate governance institutes (IGC)

Also in 2000, the Combined Code, derived from the Cadbury and Greenbury reports, was published which develops corporate governance principles relating to the structure of the board of directors, responsibilities of both directors and shareholders, and remuneration of directors. In 2001 the Myners government commissioned to review institutional investments in the UK. Its report included recommendations for improving investor-company communication (Fonseca, 2011).

In 2003 the Financial Reporting Board of the Institute of Chartered Accountants in England and Wales (ICAEW) issued the Smith Report to recommendations regarding the role and responsibilities of the audit committee and its relations with public companies. At the same time, the Tyson Report also disclosed that the report focused more on the recruitment of non-executive directors. For 2005, the Turnbull Internal Control Guide was published, which refers to the responsibilities of directors in reviewing the effectiveness of internal control. In 2008, this guide has a new version that defines the internal control over financial information and that this process must be under the supervision of executive and financial officers of the issuers.

In Mexico, the Center of Excellence in Corporate Governance (CEGC) was created in March 2004 by the Universidad Anáhuac México and the Deloitte de México. It promotes the excellence of this concept in the country and offers courses for a better practice of corporate governance.

On the other hand, the theory of the agency fits very well for the subject of study. This theory tries to solve the problem that arises when the objectives of the principal and the agent do not coincide, they have asymmetries of information, therefore, it seeks to assure the loyalty to the principal by the agent in exchange for a fair compensation system. Some of the authors who have made important contributions to this theory are Adolf Berle and Gardiner Means who in 1932 argue that the separation between ownership and control exists at different levels and that the separation of ownership and control becomes almost complete when there is not even one substantial minority shareholder (Mahoney, 2012; Carvalhal da Silva, A. L. at al, 2006; Maingot, M., & Zeghal, D., 2008). They also argue, that there is no certainty that a corporation is primarily executed in the interests of shareholders (Berley and Means, 1932).

Other contributions came later. For John Pratt and Richard Zeckhauser, the separation of ownership and control is but a subset of a series of economic problems that can be classified as principal-agent problems, with a more optimistic view of the seriousness of the problem of agency proposes the possibility that with creativity in the area of corporate governance these problems can be improved (Pratt and Zeckhauser, 1985; Apreda, R., 2006; López-Iturriaga, F. J. at al, 2005).

Kenneth Arrow, for his part, points out that the relationship of the agency is an omnipresent fact of economic life and that the principal-agent relationship has significant scope and economic magnitude. It makes the useful distinction between hidden action models (moral hazard) and hidden information models (adverse selection). This leads to the problem of information asymmetries between principal-agent (Arrow, 1985; Kostyuk, A., 2003; Ujunwa, A. at al, 2012). In 1989, Richardson Kathleen and M. Eisenhardt consider that agency theory arises when (principal) owners begin to delegate managerial functions, decision making to other individuals (agents) (Vargas et al., 2014; Chi, W. at al, 2008).

However, authors such as Joshep Mahoney, have a very general view of what agency theory understands. For him, this theory focuses on the study of corporate governance in strategic management (Vargas et al., 2014). Peng (2010) addresses the issue of conflicts that arise between the principal and the agent where divergence of interests creates conflict and results in agency costs (Vargas et al., 2014; Chouaibi, J. at al, 2009).

In the main model - agent one of its purposes is that, if efforts are not observed, they must be induced by economic incentives. In this respect the remuneration of the principal must grow with the profit obtained. Such economic incentive structures destroy insurance; the expected compensation is greater if not observed. This fact, in turn, may cause the principal (shareholders) not to induce efforts. Thus, the major shareholders can tolerate loosening (Mahoney, 2012; Bonardo, D. at al, 2007; Ponssard, J. P. at al, 2005).

Corporate governance is then a product formed by organizational networks that involves the phenomena of co-management and co-management under mechanisms of accountability, transparency and accountability through the design of inclusive and supervised governance structures.

Perhaps the term corporate governance does not sound very familiar, it may even seem distant or even unattainable. Practically refers to how to govern a company to achieve the objectives of which they were constituted. For a corporate governance to function properly there must be a balance between three important elements: The owners, the agents and the administrative council. If the best practices of corporate governance are obtained, within this balance of governance, companies are most likely to achieve optimum growth without incurring management problems, thereby increasing wealth, generating a greater number of jobs and greater economic activity that contributes development to the country. This is why companies listed on the Mexican Stock Exchange have a focus on the application of best practices.

If managed to develop a corporate governance culture mainly in SMEs and in society in general, the performance of the national economy can be significantly improved. GDP growth in Mexico has been below average compared to other emerging countries. The general interest in this subject is that companies should support a higher than average life cycle, adopting the best practices of corporate governance that contribute to the growth of the domestic market (Vázquez, 2012).

As mentioned previously in Mexico, the companies are mostly small and medium enterprises (SMEs) and family. In these cases, ownership and control are in the hands of a few who are usually members of the same family and can occur. The case that the administration can be manipulated, provoking internal un-controllers, since, in many cases the relatives occupy managerial positions, the reason why they become low-skilled agents, which generates incompetence and opens the possibility of frauds in the business. Another of the things that it is tried to avoid with the good application of the corporate government is that it does not present the situation of the reconsidered agency theory, that is when the main ones are those that exploit to the company and are the agents who making use of its information (Vargas et al., 2014).

Adequate corporate governance practices lead to avoiding agency costs. These costs entail constant monitoring and control of the agents by the principals until the agents send signals that they have gained the trust of the principals.

In Mexico, it may be believed that the best practices of Corporate Governance only apply to very large companies or that are listed on the Mexican Stock Exchange (BMV), since there is an idea that having a good Corporate Governance requires a strong investment of means; Being that the reality is another, since the implementation can be carried out taking advantage of the resources that companies already have and the resources invested that will always be less than the benefits that will be obtained later (Estrada, 2012).

The control of organizations has always been important but it is from the last decades where this issue has become relevant due to financial fraud in large corporations. Therefore, corporate governance could be an important competitive differentiation tool, which could lead the company to the top (Vargas et al., 2014; Atrilla et al., 2005; Melis, A., 2003).

3. THEORETICAL REVIEW

One of the main concerns that arises in the companies is that the participants of the same become their own enemies, emerging treacherous practices or that those participants practice the opportunism. Importantly, it is how corporate governance helps to address these bad practices, but what is corporate governance? It can be defined it as the relationship that exists between diverse participants to determine the direction and performance of corporations (Peng, 2015). Another interesting and commonly accepted definition is the following:

Corporate governance is the system by which societies are directed and controlled. The structure of corporate governance specifies the distribution of rights and responsibilities among the different participants of the company, such as the board of directors, managers, shareholders and other economic agents that hold some interest in the company (OECD, 2005, p.11).

According to the OECD, corporate governance also provides the structure through which the company's objectives are set, the means to achieve these goals, and how to track its performance. Therefore, corporate governance can be considered good when it "shows how a company is managed and controlled, that is, the "rules of the game" that participants follow when they carry out their activities or transactions with the company" (CAF, 2005). At the end of the day, this system establishes a relationship to achieve a balance between three important elements of the company: the board of directors, principals and agents defined by Peng, (2015) as the tripod of the company.

It is extremely important to determine and delimit the responsibilities of each element and to know the conflicts that may arise between them. To date two have been identified. The first conflict is described as conflicts of interests between them, since interests are not compatible that can generate agency costs, since the relationship can become tortuous. The cause of these conflicts can be due to the asymmetries of information, since in general managers have more information than owners. The second conflict is between the main ones, whose interests may diverge between majority and minority shareholders.

The third element of corporate governance is the board of directors, which performs the function of intermediary between managers and owners, is responsible for ratifying and evaluating strategic decisions (Peng, 2015; Nerantzidis, M. at al, 2012; Yoser Gadhoum, Y., Gueyié, J.-P., & Hentati, M., 2006). Within corporate governance are two types of mechanisms, one internal and the other external, the first refers to the provisions of shareholders to work with managers, while in the external shareholders do not have that provision and are willing to sell his actions.

In order to develop an integral model of corporate governance it is necessary to take several considerations in the industry. Corporate governance practices must go according to the nature of the industry in which they are immersed. Another consideration is based on resources, basically refers to the skills and abilities acquired by senior managers, the greater these skills, the greater the competitive advantages they offer to the company and difficult to imitate. Finally, consider institutions that are oriented to legal protection especially minorities. In this aspect, Mexican companies that practice corporate governance has very developed this category. At the end of the day, it is important to master the rules that affect corporate governance and anticipate changes (Peng, 2015).

4. REVIEW OF EMPIRICAL LITERATURE

It is carried out a thorough investigation, using electronic tools. It can find a low percentage of case study related to corporate governance within Mexican companies and the few found are made by large companies. Although it is important to have complete theories, it is also important to have the information landed in a specific case, only in this way can it be encouraged that more companies decide to implement this control system and bring with it the development of competitive advantages. Mainly the goal is to create awareness of the importance on this topic.

Within the search it was found a company of Consultancy in Communications and Computer science S.A. Of C.V. (CCISA), which provides consulting, auditing and information technology governance training. Within its conclusions it was found that in Latin America a European model of corporate governance is applied, which is based on establishing strong relations with banks or corporate holdings and with financing much less dependent on the capital market than in the Anglo-Saxon countries (Peña, 2006). Applying these types of models implies a greater effort from within the company to achieve good corporate governance. Therefore, it is essential to have a well-qualified audit department.

It underscores the importance of the internal structure of the company and considers relations with other investors, shareholders and financial institutions to be of the utmost importance.

On the other hand, it is the point of view of a large Mexican company such as Teléfonos de México, better known as Telmex, a telecommunications company based in Mexico City, which bases its success not only on its ability to respond to the dynamism of changes, but also to human capital (Slim, 2015). Slim comments that the code of ethics manifests the way in which principles and values should be conducted and lived; And it is the responsibility of the company to know it and put it into practice at all times as it becomes a strength in the face of current challenges and those that are to come. Telmex defines corporate governance as "The system and processes by which societies are directed and controlled, seeking to strengthen management" (Telmex, 2015).

There is a document developed by the OECD, which contains a set of principles to correctly carry out the corporate governance of companies. These principles are to promote the transparency and effectiveness of markets, to establish the rights and functions of shareholders as well as to encourage fair treatment between them. Another principle established by the document is to recognize the rights of interested parties established by law or through mutual agreement and finally the disclosure of data, define the responsibilities of the council and others that lead to an organized and well-structured system (OECD, 2004).

This study concludes that it is essential to monitor compliance with corporate values, as well as define the responsibilities of management bodies and their supervision, maintain a control system for business processes and finally ensure the disclosure of timely and timely and quality information (Telmex, 2015). Its objectives include: transparency of company management, establishment and continuous updating of control mechanisms, achieving and maintaining operational excellence through best practices, and finally strengthening the company's core values to generate an organizational culture that promote. To fulfill these objectives, the company implemented an Audit and Corporate Practices Committee that works in conjunction with the administrative council.

For América Móvil's CEO, corporate governance and a code of ethics, it reaffirms the company's philosophy and values and fundamental principles that have sustained its growth, consolidation and projection (Hajj, 2016). Unlike the other companies, America Movil encourages its employees and collaborators to know, understand and adhere to corporate governance policies and code of ethics. González, Polo and Vargas carried out a study to demonstrate the level of compliance and the influence that corporate governance mechanisms have on financial profitability, carried out with companies belonging to the telecommunications sector and non-core consumer services. Such firms appear in the National Banking and Securities (CNBV) from 2010 to 2012.

The results obtained, applying a descriptive study is that: communications companies maintain a positive trend in terms of compliance with the CNBV provisions. The Code of Best Corporate Practices (CMPC) generates organizational profitability. Consequently, the provisions issued by the CNBV through the CMPC, increase the profitability of organizations and make them more attractive in the stock market (González, Polo and Vargas, 2015).

This year the Mexican Stock Exchange (BMV), incorporated the companies Banorte, Coca-Cola FEMSA, Arca Continental and AOH for adopting strategies in favor of the environment, contributing to the development of society and having good corporate governance practices (Expansión, 2017).

In some other areas than telecommunications, for example in the financial sector, the Ethical Boardroom, which is a subscription-based magazine and a website that relies on influential people for its trajectory in providing in-depth coverage and a critical analysis of the global governance problems. It awarded Grupo Financiero Banorte the 2017 Best Corporate Governance Award. This magazine recognized the institution's exceptional leadership to guarantee protection and long-term value for all its stakeholders (La Jornada, 2017).

5. RESEARCH METHOD

This section addresses the process that was carried out to take the research on the importance of the implementation of a corporate governance system of a leading company in the telecommunications sector. For that, a descriptive study was carried out, and explanatory, since the concepts related to positioning strategies and the agri-food sector are described and financial reports from two periods are analyzed, as well as the main attributes that explain the success of the company in this sector. A review of the different theories of the subject studied was carried out; In addition, empirical research is presented that explains the importance of establishing a set of relationships between the company's management, its board of directors, its shareholders and other stakeholders, as well as the methodologies and the latest findings made by some authors in the sector.

The main objective of the research is to determine the importance of the implementation of a corporate governance system in the Mexican company Megacable in its development from the review of the theoretical and empirical literature. As mentioned by Münch and Ángeles (2012, p.57) "the theoretical framework or conceptual framework is the exposition and analysis of the theory or group of theories that serve as a basis to explain the background and interpret the results of the investigation".

6. CONTEXTUAL FRAMEWORK. MEGACABLE CASE

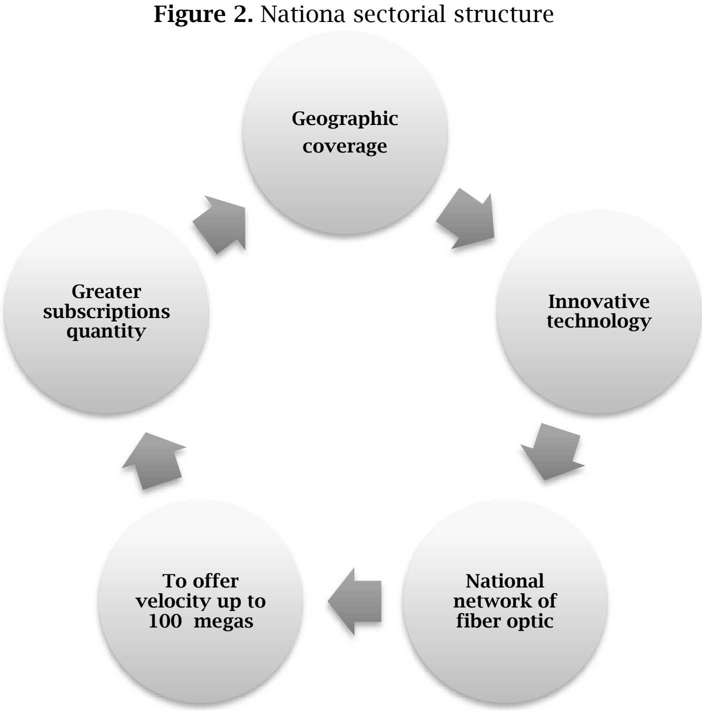
Megacable was born in the year 1978, a group of businessmen form Vision by Cable of Sonora, and

Vision by Cable of Sinaloa. Nevertheless, it is until 1982 that Grupo Megacable is created, becoming the leader in offering services of entertainment and information by television and Internet by cable. In this same year that begins operations with the name of Television by Cable, in the cities of Guasave, Sinaloa and Navojoa, Sonora. The market of Guadalajara is attacked until 1992 as they acquire the concession to exploit the municipality. This fact marked the company's new expansion path. In this year the name of the company was unified to Vision by Cable. In 1995, it changed the corporate name and corporate image, to Megacable.

In 2007 it is listed on the BMV, under the key slate MEGA.CPO, and reports 1,298,438 cable subscribers, 384,794 Internet and 109,051 telephonies as of December 31 of that year, reaching a presence in 23 Mexican states. Starts relations with Teléfonos de México on December 4, to offer telephony services in more geographical places. From 2008 to 2010 the company acquires some cable systems as Omnicable. For the first time, in 2012, the Company's Board of Directors and shareholders held an Ordinary General Meeting where the payment of dividends was discussed and approved. In 2013 the Group acquired 51% of the representative shares with a voting right in the capital stock of the company known as Ho1a. With this, the Group strengthens its position in the corporate, corporate and public sector market by expanding solutions in telecommunications, data solutions and information management (Megacable, 2017).

The main attributes that explain the success of the company are presented in figure 2 below:

Figure 2. Nationa sectorial structure



Source: Own elaboration based on Megacable (2017)

A) Offer speeds of up to 100 megs to a more extensive subscriber base.

B) Greater geographic coverage

C) The implementation of innovative technology

D) The implementation of optical fiber to create a network at national level

By 2017 the company expects to face challenges and great opportunities to continue to maintain its leadership in the cable, Internet and telephony industry. Therefore, the firm wants to maintain the confidence that the performance of the company will be reflected in the performance of the quote of its share in the future.

Table 1 shows the situation of the company at the end of the first quarter of the current year. In the residential segment, Internet and telephone subscribers increased by an outstanding 20% and 32% respectively year-on-year. Revenues in the business segment grew significantly by 11% year Vs. year. Metrocarrier 42%, Ho1a, excluding the CFE project grew 44% and MCM 19%. Revenues in this segment represent 18% of the company's total revenues. Cable's UAFIDA reached Ps. 1,754 million with a margin of 46.8% in the quarter. On the other hand, the consolidated EBITDA reached Ps. 1,872 million with a margin of 43.6%.

Table 2 shows the company's income statement showing the profits obtained in the period and it is seen that it is a growing company.

Table 1. The Company continues with its cash generation capacity, improving net debt, from Ps. 2,490 million in 4Q16 to Ps. 741 million in 1Q17

Outstanding Figures			
	1T17	***1T16***	***% Var***
Income	4,289,948	4,059,264	5.7%
UAFIDA	1,871,501	1,768,373	5.8%
UAFIDA Margin	43.6%	43.6%	
Net profit	1,057,202	1,021,027	3.5%
Cash and investments	1,944,128	4,183,492	(53.5%)
Net debt	740,860	(284,159)	(360.7%)
CAPEX	849,266	806,098	5.4%
Mkt. Cap (Millions Ps.)	62,301	61,601	1.1%
Suscriptors			
Video	2,907,994	2,967,443	(2.0%)
Internet	2,303,391	1,924,580	19.7%
Telephony	1,198,980	911,112	31.6%
Otros Datos			
Past houses	7,914,061	7,542,980	4.9%
Kilometers of network	54,706	51,939	5.3%
Employees	16,603	16,139	2.9%

Guadalajara, Jalisco, México, 02 de Mayo de 2017 - Megacable Holdings S.A.B. de C.V. ("Megacable" o "la Compañía") (BMV: MEGA.CPO) announces today its financial results for the first quarter of 2017 (1Q17). The results are presented in accordance with the International Financial Reporting Standards in force (IFRS). The information is expressed in thousands of Mexican pesos (Ps.), Unless otherwise indicated.

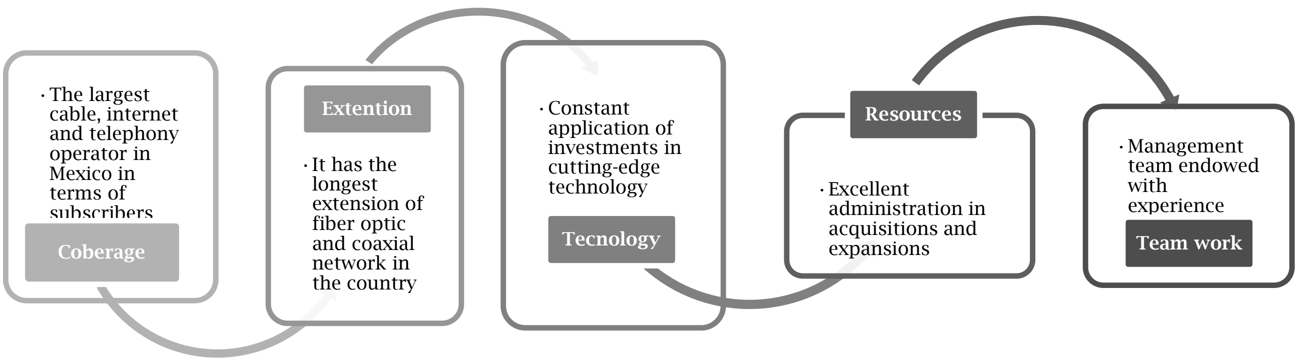
Table 2. Statement of results for the first quarter 2017

	1T17	***1T16***	***% Var***
Income	$ 4,289,948	$ 4,059,264	6%
Cost of services	1,233,316	1,237,522	(0%)
Gross profit	$ 3,056,631	$ 2,821,742	8%
Operating and general expenses	1,185,131	1,053,370	13%
UAFIDA	$ 1,871,501	$ 1,768,373	6%
Depreciation and amortization	540,688	477,727	13%
Profits of operation	$ 1,330,812	$ 1,290,646	3%
Other income (expenses), net	13,344	19,241	(31%)
Comprehensive financing result, net	-47,124	-69,417	(32%)
Profits before taxes and			
minoritary interests	$ 1,391,280	$ 1,379,304	1%
Taxes to profits	266,724	286,438	(7%)
Net profits of the period	$ 1,124,556	$ 1,092,866	3%
Net profits attributed to:			
Monoritary interest	67,354	71,839	(6%)
Mayoritary interest	1,057,202	1,021,027	4%
	$ 1,124,556	$ 1,092,866	3%

Guadalajara, Jalisco, Mexico, May 02, 2017 - Megacable Holdings S.A.B. of C.V. ("Megacable" or "the Company") (BMV: MEGA.CPO) today announced its financial results for the first quarter of 2017 (1Q17). The results are presented in accordance with the International Financial Reporting Standards in force (IFRS). The information is expressed in thousands of Mexican pesos (Ps.), unless otherwise indicated

Table 2 shows that in the first quarter of 2017 it has a 6% increase in revenues compared to the same period of 2016, gross profit reflects an 8% growth, operating income increased by 3%. % this is in 1Q16 from $ 1,290,646 to 1T17 of $ 1, 330,812; the net profit for the period has an increase of $ 31,690, which represents 3%. Part of the results that have been obtained are the current description of the Megacable company as can be seen in figure 3.

Figure 3. Actual description of the Megacable company



Source: Own elaboration based on Megacable (2017)

By 2017 the company expects to face challenges and great opportunities, to continue to maintain its leadership in the cable, Internet and telephony industry. Therefore, they want to maintain the confidence that the performance of the company will be reflected in the performance of the quote of their action in the future.

It can now be described the company as:

A) The largest cable, internet and telephony operator in Mexico in terms of. subscribers.

B) It has the largest extension of fiber optic Kms and coaxial network in the country.

C) Constant application of investments in leading edge technology.

D) Excellent administrator in acquisitions and expansions.

E) Management team with experience.

A. Corporate governance in Megacable

Megacable is structured as a controlling company that manages through a series of controlling subsidiaries and operating companies, which provide technical and administrative services to the Megacable Group. It conducts its business through all the subsidiaries, so that its results are consolidated.

B.Code of best practices by issuing companies

The Corporate Governance Principles are aimed at establishing the best corporate practices to contribute to improving the integration and functioning of the Board of Directors and its support bodies, which are applicable to all types of public and private companies in general, without distinguishing their size, activity or shareholding composition.

C. Shareholders' Meeting

Assemblies are ordinary or extraordinary and special shareholders' meetings may be held. The calls are published in one of the newspapers of greater circulation of the address of Megacable or in one of the newspapers of greater circulation at national level with at least 15 days of anticipation to the date established for the event.

In order for shareholders to be able to attend, they must be registered in the Company's shareholder registry and have proof of the deposit of their shares or ordinary participation certificates (CPOs) with INDEVAL, or present the proxy issued by the Company. Fiduciary of the CPOs together with the certificates issued by the respective stock exchanges and INDEVAL. The foreign holders of CPOs will exercise the voting rights corresponding to the Series A Shares represented by them, in relation to certain limited matters through instructions to the Trustee of the CPOs.

D. Board of Directors

Megacable has a board of directors consisting of 11 directors, 3 of whom are independent. This council is divided into two committees. The one of better corporate practices and the one of audit.

E.Statutes

The Capital Stock of Megacable Holdings S.A.B. Of C.V. Consists of 1, 721, 355,673 Series A Shares, all of which are outstanding, paid and not subject to additional contributions. Megacable has its shares registered in the National Securities Registry (RNV) and is listed exclusively on the Mexican Stock Exchange S.A. Of C.V. (BMV) under the ticker symbol: MEGA CPO.

7. RESULTS

As can be seen in table 3, the company Megacable has a corporate government which focuses mainly on the structure, since it considers it important for the management and development of internal control, creating committees and policies to avoid bad practices within the company. the organization, which is a fundamental part of the theory of the agency.

Table 3. Company Description Megacable (Corporate Governance)

Element	*Description*
Corporate governance	Structured as a controlling company that manages through a series of controlling subsidiaries and operating companies that provide technical and administrative services to the Megacable group. Conducts its business through all subsidiaries, so that its results are presented consolidated
Code of best practices by issuing companies	The Corporate Governance Principles are aimed at establishing the best corporate practices to contribute to improving the integration and operation of the Board of Directors and its support bodies, which are applicable to all types of public and private companies in general, without distinguishing their size, its activity or its shareholding composition.
Investment assembly	The assemblies are ordinary or extraordinary and special shareholders' meetings can be held. The announcements are published in one of the newspapers with the largest circulation of Megacable's address or in one of the newspapers with the highest circulation nationwide at least 15 days before the date set for the event. In order for shareholders to attend, they must be registered in the Company's shareholder registry book and must have proof of deposit of their shares or ordinary participation certificates (CPOs) with INDEVAL, or present the power of attorney issued by the company. fiduciary of the CPOs together with the certificates issued by the respective stock brokers and INDEVAL.
Board of directors	Megacable has a board of directors that is made up of 11 directors, 3 of which are independent. The council is divided into two committees. The best corporate practices and the audit.
Status	The Share Capital of Megacable Holdings S.A.B. of C.V. consists of 1, 721, 355,673 Series A Shares, all outstanding, paid and not subject to additional contributions. Megacable has its shares registered in the National Securities Registry (RNV) and is quoted exclusively on the Mexican Stock Exchange S.A. of C.V. (BMV) under the quotation key: MEGA CP

Fuente: Elaboración propia.

With the growth that has occurred in Mexican companies, the motivation of human capital has been neglected, which is a fundamental part of maintaining the course, since it conditions the order and pace of the measures to be implemented. That is why Megacable requires aligning objectives with respect to planning and setting priorities that indicate the desired goals and results to be more effective in the practice of corporate governance as are the functions of the ordinary shareholders' meeting, know how build the board, its committees and management and relationships.

The results of the descriptive analysis showed that the study company Megacable has corporate governance; However, it is necessary to further develop the system. It confirms to high emphasis on internal structure, creating committees and policies to avoid bad practices, each section that presents on its website about corporate governance, is very poor in information and is lacking in developing manuals as well as the principles of ethics and best practices. There is also a section to involve the staff to participate in the system

In the case of Megacable the practice of corporate governance is mainly focused on the structure, since it is considered important for the management and development of internal control. With the development of corporate governance, Mexican companies are clear how to implement and execute plans and best practices, that is, know how to create plans, the functions of the ordinary shareholders meeting, know how to build the board, its committees and management and relationships between them. However, it neglects other aspects such as motivation, which determines the way forward and the order and pace of the measures to be implemented. In this case, it is particularly necessary to align the objectives, for this is forced a modification of attitudes and generate a commitment. Within the analysis, no information about planning and prioritization was found which indicates how to define goals through the identification of desired results. Corporate governance is practiced but not with the most efficient application.

CONCLUSION

With the information gathered in this article, it can be able to know some of the main concepts of corporate governance and the theory of the agency, as well as the application of these in the companies so that these have been successful. It also exposes the costs of agency that these imply that are constantly monitored and controlled by the principals until they consider that the agents are prepared to carry it out.

One of the main benefits of implementing a corporate governance is to achieve faster growth, since the companies are managed and controlled, since it specifies the distribution of rights and responsibilities among the different participants of the company, such as directives, managers, shareholders, among others that maintain some interest in the company as new investors, among others.

It is important to spread the information about the advantages of implementing efficient corporate governance among SMEs for their development and growth. By generating a guide that adjusts to the characteristics that Mexican companies have of easy access, provide them with continuous training to those responsible for the companies so that better results are achieved. According to data from the INEGI (2014), of the more than 5 million business units that exist in the country, 99.81% are MSMEs, 52% in Gross Total Production and generate 73% of jobs (Proméxico, 2014). That is why in the national and local economy micro, small and medium enterprises are an element of great importance to promote the generation of jobs and use of resources of urban and rural areas

The country's government must take action on the issue and start encouraging such practices. The guide will also serve managers and owners of non-listed companies who wish to expand their knowledge.

Some other advantages of the guide mentioned above would be:

A. Learn to define the motivations for the implementation of good governance, corporate.

B. Examine strategies to achieve attitude changes among employees

C. Develop strategies to improve communication with stakeholders

D. Learning to handle conflicts of interest among members in a family member

E. How to achieve professional management, and

F. How to institutionalize good practices and policies

Within the limitations found in this research, is that an adequate guide to the application of corporate governance is not known, nor is there any diffusion of the same, and therefore, dissemination would be important. As well as making some comparisons between several companies that use this structure within the country to have a broader picture of the current situation.

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