



# Companies Circle

of the

Latin American Corporate Governance Roundtable

## Report to the Roundtable

3/12/2008



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# Companies Circle members





# Companies Circle Meeting Decisions

- Nomination of new Board :
  - Chair: Andre Covre, Ultrapar (Brazil)
  - Vice-Chairs:
    - Mariela Garcia de Fabbri. Ferreyros (Peru)
    - Eustaquio de Nicolás, Homex (Mexico)
    - Carlos Raul Yepes, Argos (Colombia)
- New governance model
- Expansion of membership up to original threshold of “20 members”
- Creation of topic subgroups to allow members to exchange information and experiences
- Launching schedule of the Practical Guide of Implementing Good Governance



# Practical Guide

- ❑ A step by step guide of implementing best practices
- ❑ Based on Circle members case
- ❑ Benchmarking tool: 100 questions to allow companies to assess their practices (book and Circle website)
- ❑ Study comparing Circle 14 members operation and market results with their Latin American peers



# Practical Guide: chapters structure

1. Motivations: The “whys” define the “ways”
2. Purpose Alignment: Changing Attitudes and Generating Commitment
3. Planning: Setting Priorities
4. What to Do: Implementing Good Governance Practices
5. The Special Governance Challenges Facing Family Companies
6. Implementing and Learning from Reactions
7. The Tangible Benefits of Good Governance



# Corporate Governance Value: companies perception

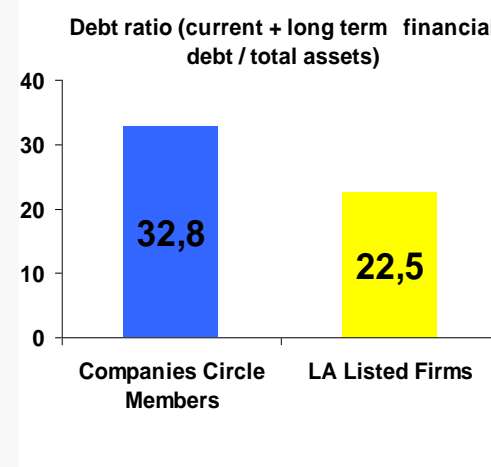
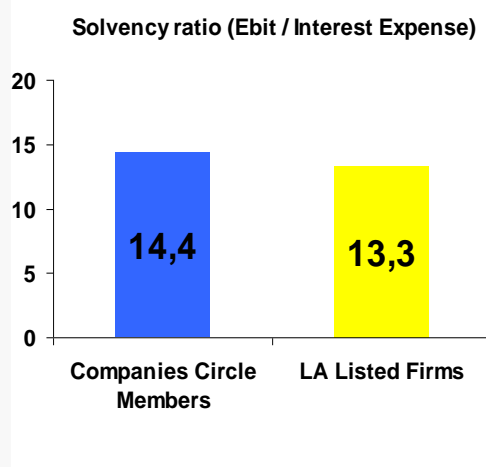
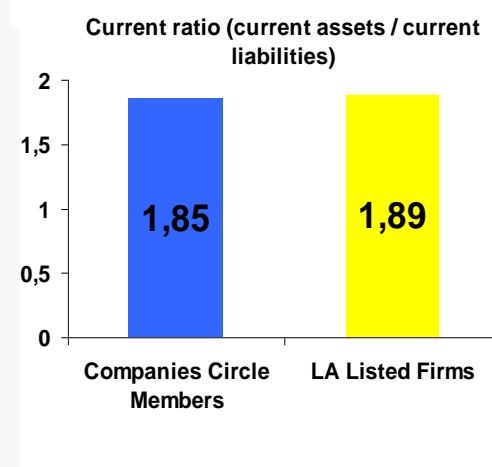
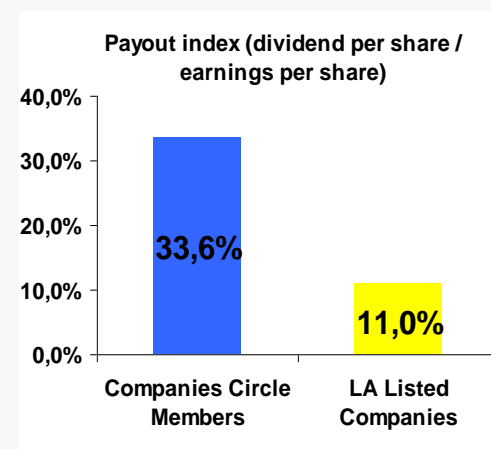
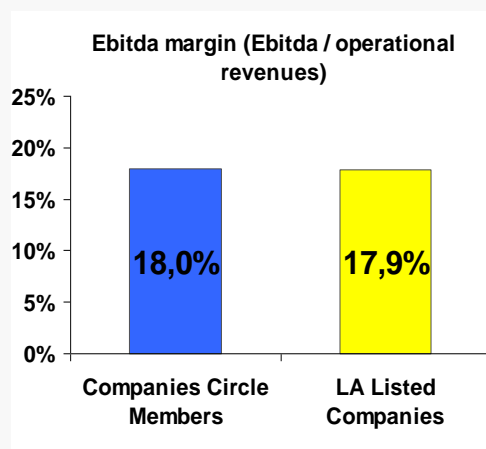
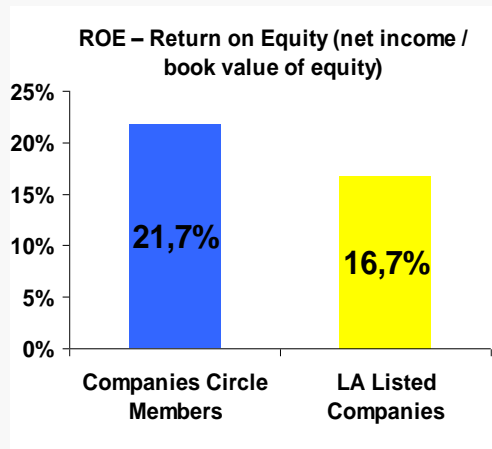
- ❑ **Institutionalization** with less dependence on specific persons for running the business;
- ❑ Higher **confidence of the investment community**;
- ❑ Better **access to credit options**, including long-term capital from development banks;
- ❑ Better **recognition among all stakeholders**, including several national and international institutions;
- ❑ Higher **confidence for carrying out mergers** and acquisitions, due to higher transparency standards; and
- ❑ Substantial **improvement of business processes**, including internal controls and supervision of the decision making process.



# The value of CG: results from analysis

- ❑ Strong evidence that good **CG not only pays off, but is essential** for good business prospects in the long term;
- ❑ In spite of the difficulty in measuring the true “weight” of CG, all **analyses pointed to the same direction**:
- ❑ Circle members – having invested more in CG structures and processes:
  - Produce **substantially better operational and market results** than their Latin American peers.
  - **Investors would be doing much better off investing in the group of firms recognized as regional leaders in CG.**
- ❑ Our analysis simply reinforced the initial belief of Companies Circle members.

# The value of CG: better operational results than the market average

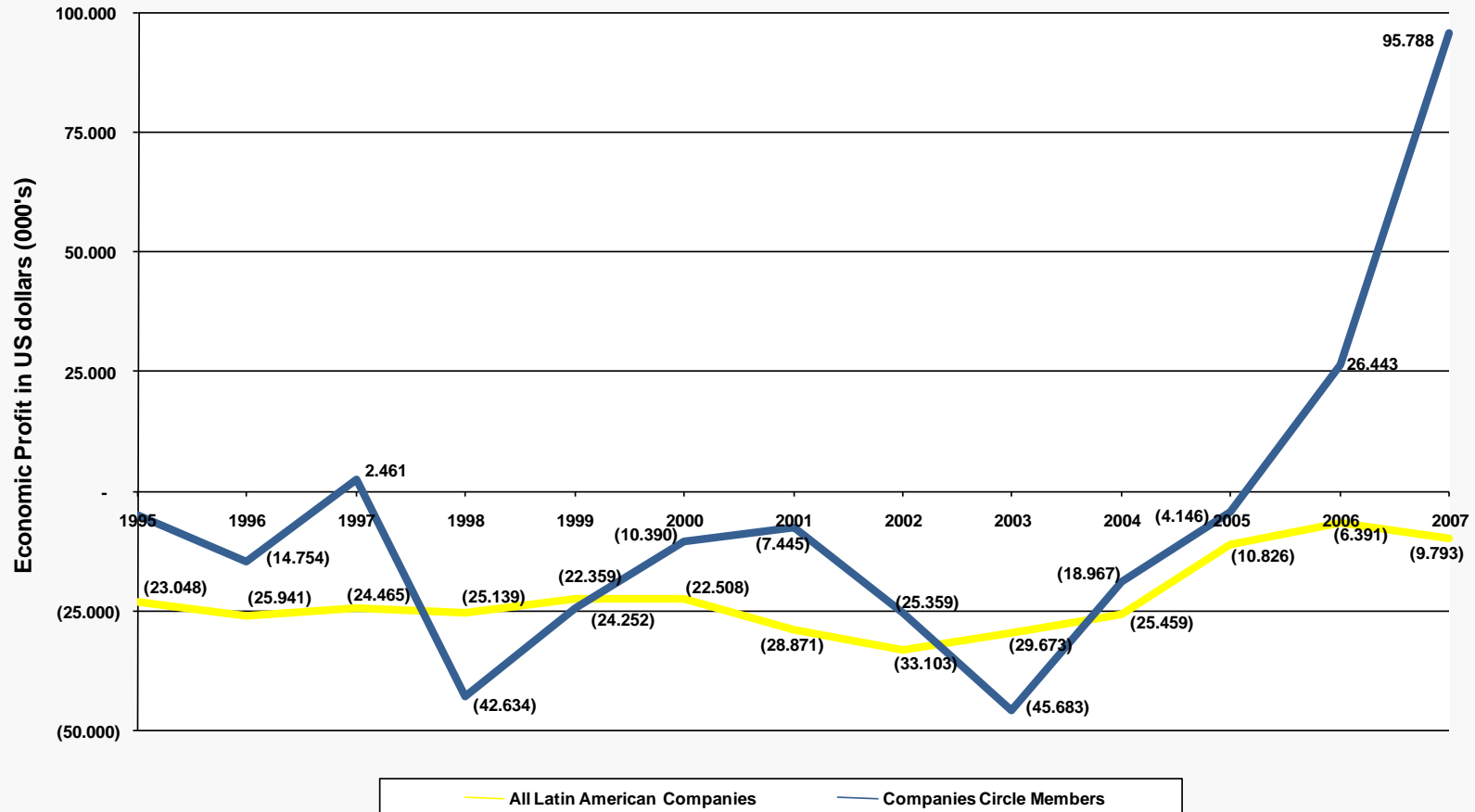


Selected operational indicators of the 14 Companies Circle members against mean indicators of all Latin American listed firms. Used the average indicator of each firm for 3 years (2005 to 2007 results).



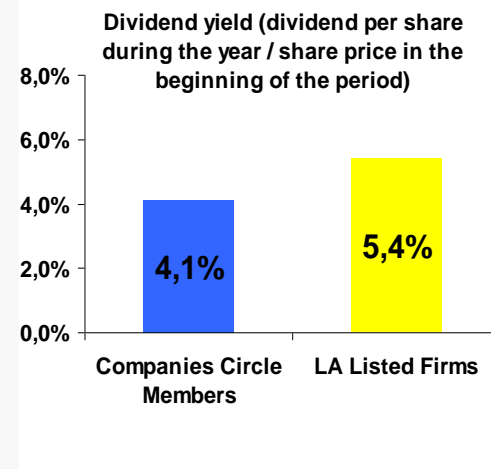
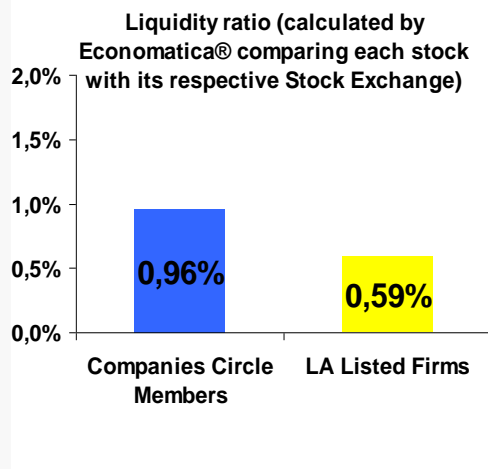
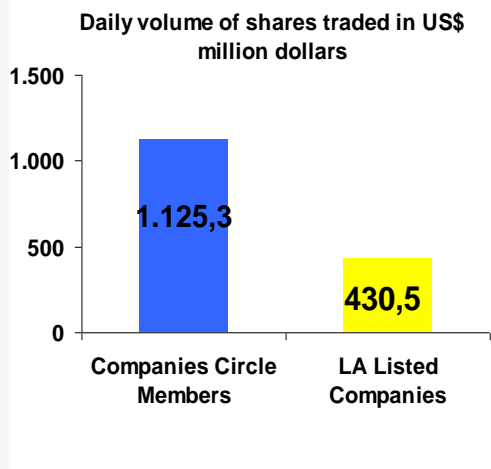
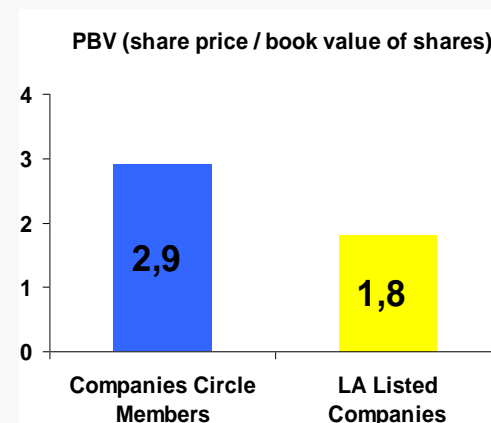
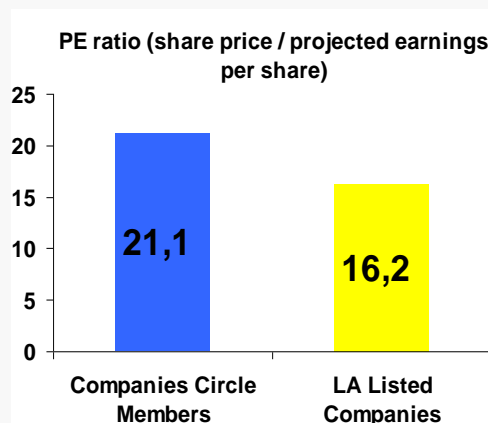
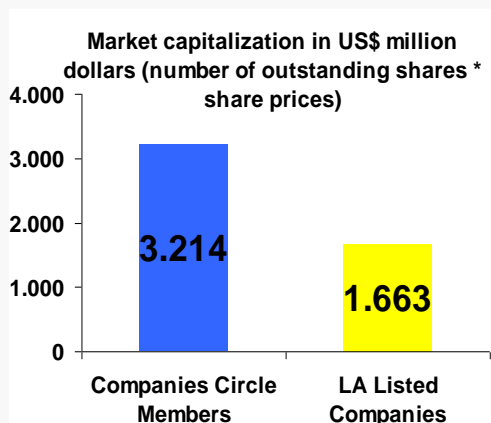
# Improvements in CG positively impact operational wealth creation

Economic Profit (EVA® proxy) from 1998-2007  
14 Companies Circle Members vs. All Latin American Companies



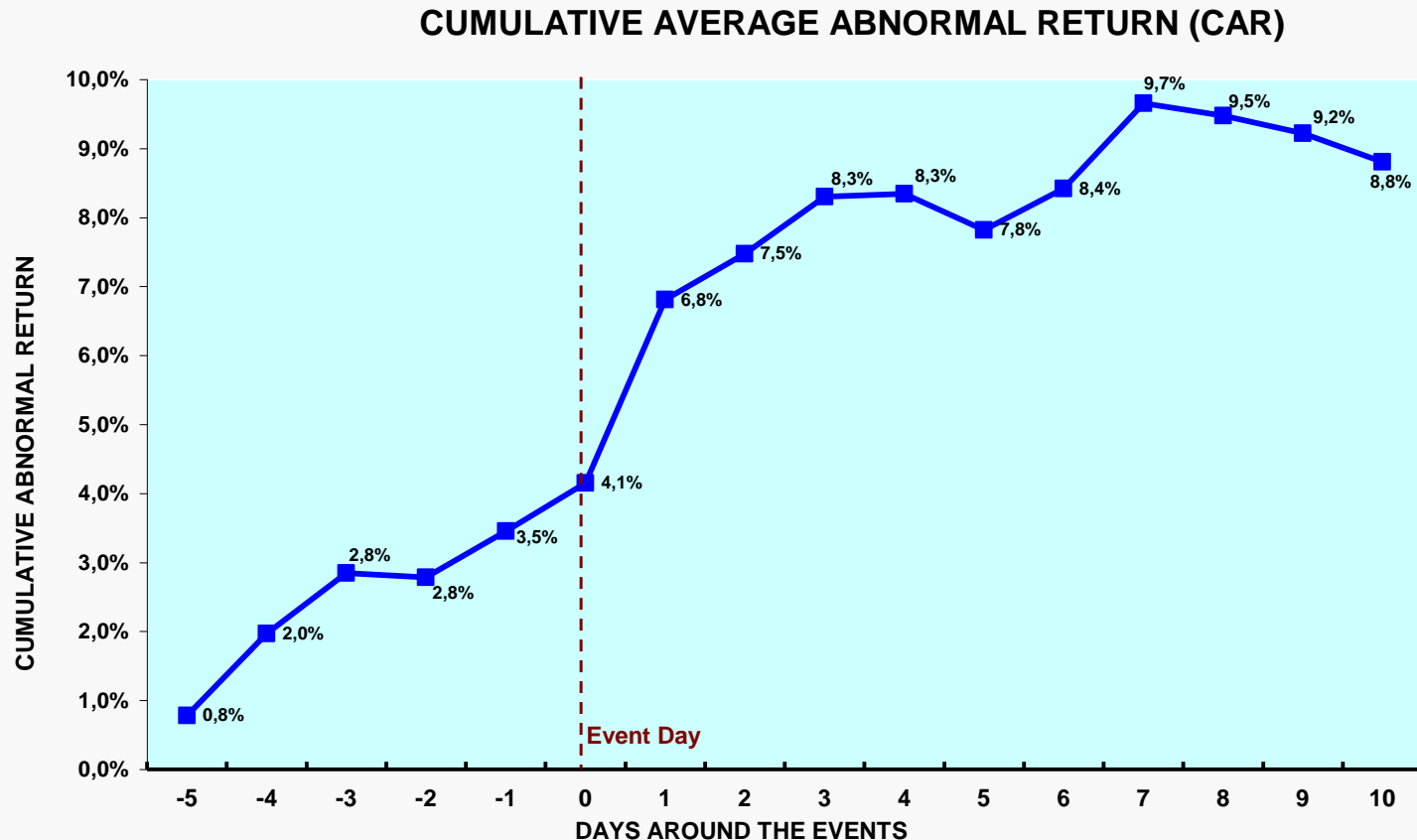
Evolution of the yearly economic profit (a simplified version of EVA®) of all 14 Circle members against mean indicators of all Latin American listed firms from 1995 to 2007. (period companies substantially improved their CG)

# Cost of equity: consistently better market indicators than the average in the LATAM market.



Selected market indicators of the 14 Circle members against mean indicators of all Latin American listed firms. Used the average indicator of each firm for 3 years (2005 to 2007 results).

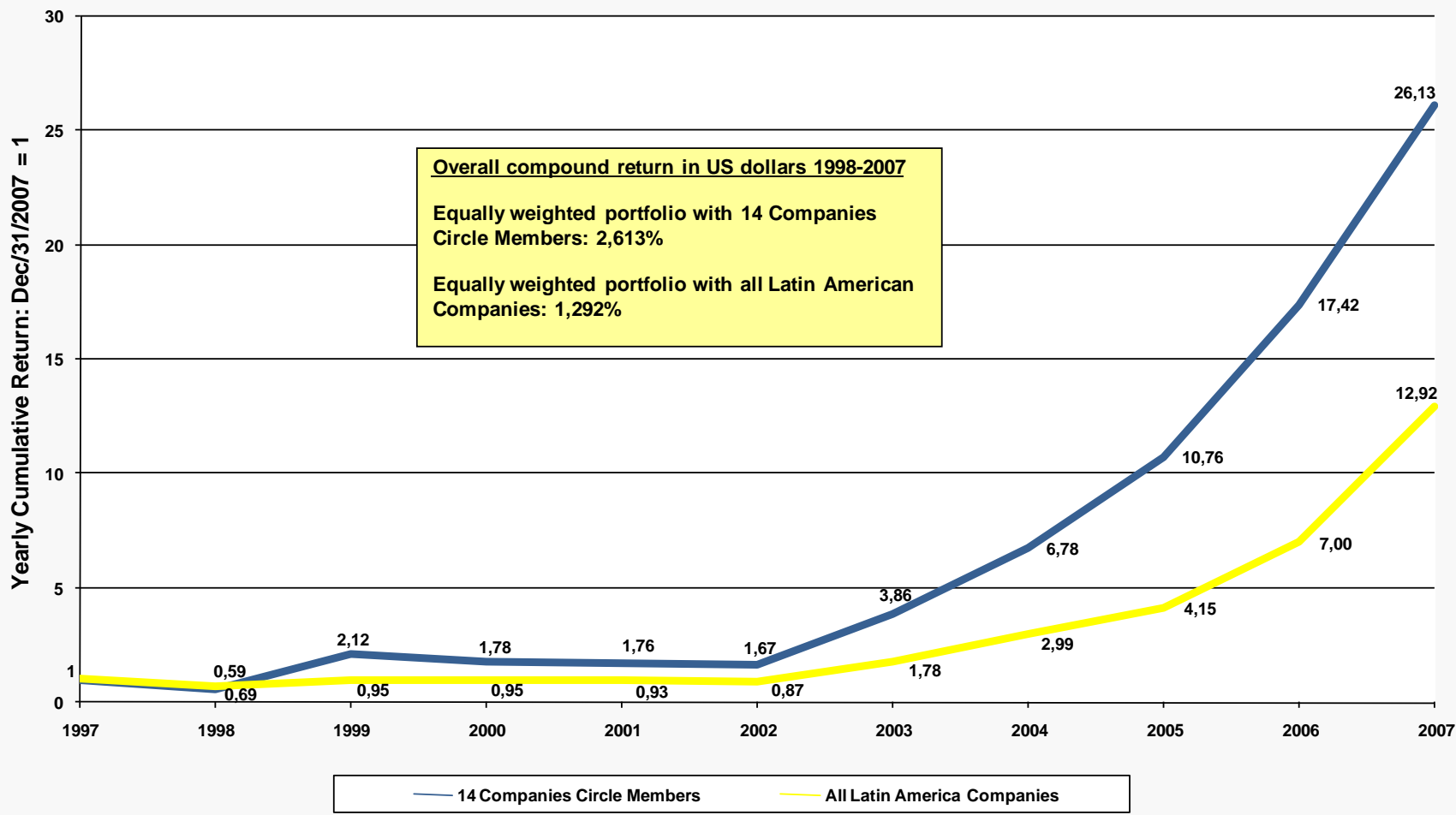
# Unexpected announcements of improvements in CG practices positively impact stock prices



The core idea is to investigate if the firms presented positive abnormal returns during the period (event window) around the announcement of CG improvements. 23 events from 1998 to 2007 were studied. .

# Better investment option to shareholders, yielding higher yearly stock returns

Yearly Cumulative return: 1998-2007  
 14 Companies Circle Members vs. All Latin American Companies



\* Source: Economática® database.

# Guide launching schedule

- Consideration of updating set of analyses with 2008 data
- English version: around 2nd -3rd week of July
- Possible venue: New York
- Portuguese and Spanish versions: launching date in different countries of LATAM to be decided in the beginning of 2009.



Thank you

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