

calculated by M&E. All top 10 companies achieved a B or higher rating, which means their scores were 67% and higher.

That score takes into account some 800 data points analyzed by M&E, including adherence to best practice, financial performance and management strategy. Ultimately, the indices seek to quantify management practices in order to identify the best-run companies, on the philosophy that these are most likely to offer strong returns to investors over the longer-term.

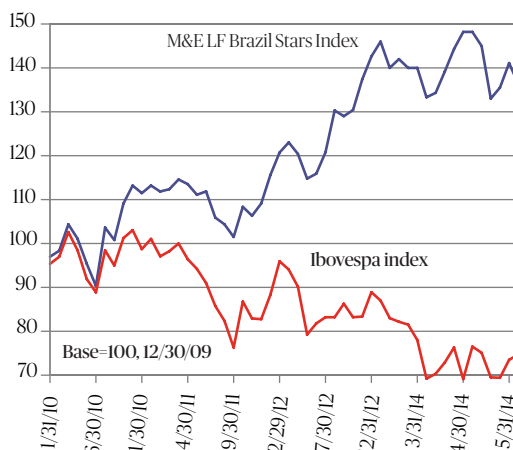
One ratio the analysts look is “executive effectiveness” – the ratio of a company’s net profit relative to total compensation at the executive level.

Copa Airlines and Cencosud stood out in that regard, says M&E. Net profits at the airline were close to 47 times executive pay, for example, while that ratio stood at close to 40 times at the supermarket operator.

Transparency is another important area in the management score. Here, companies listed in the US typically scored better, a result of the country’s stringent reporting requirements. Higher transparency is displayed not just in the numbers that are reported, but in the inclusion of a discussion of the figures and details on executive

Outperformance

M&E LatinFinance Brazil Stars index vs the Ibovespa



Source: Management & Excellence SA

pay and operational expenses.

Companies that publish sustainability reports do even better, indicating how much they’ve spent on training, for example, or how much time is lost to employee illness.

Copa stood out again on transparency – M&E assigned it a 98.6% score in this regard.

Arca Continental and Femsa are close behind, with scores of 97.4% each.

Riskiness of a company’s metrics – which M&E judges according to their volatility over the period – is another of the core parts of the LatAm Stars analysis. Here analysts measure variations in a company’s indicators, including earnings-per-share, debt ratios, assets, revenues and profits, with the belief that a record of consistency suggests a firm will be less risky in the future.

Chileans Parque Arauco and Cencosud, and Colombia’s Grupo Éxito scored best when

it came to volatility. At the other end of the scale, Mexicans Alfa, Femsa and Cemex are judged the most risky of the indices components.

As the LatAm Stars index evolves, M&E may select another couple of names from other sectors to round out the group. Education is one industry in contention, notes Cox. LF

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