

Brazil Governance Shines

by Staff Reporters

Brazilian companies fare best in rankings for ethics, corporate social responsibility (CSR) and corporate governance (CG), according to a *LatinFinance* study in association with Madrid-based consultancy Management & Excellence (M&E). Companies in other LatAm countries are less compliant, according to our first ever detailed assessment of the region's largest power, energy, and oil and gas entities by market capitalization.

"Sustainability is currently one of the hottest investment stories," says William Cox, managing director at M&E. "Following the crisis, investors regard sustainability as a sort of risk hedge because sustainable companies have shown to have lower risk and better resilience," he adds.

When ranked by sustainability performance, the best companies in LatAm are Brazilian entities like CPFL, Vale and Petrobras. They are also the issuers with the greatest proportion of international investors.

Brazilian firms scored first in all three areas, which correlates with Brazil's strong economic situation and its fast recovery from crisis. They are helped in this by tough public competition and the presence of ISE, the business sustainability index launched in 2005.

"Although suffering from image problems because it underperformed the iBovespa index, ISE still helps set the Brazilian standard," says Cox. "The index will be adding a seventh environmental dimension next year and hopes to attract big caps like Petrobras and Vale," he adds.

Follow the Money

While some in the market question the value of sustainability, Cox says that sustainable investment in good

As in banking, Brazilian corporates top the regional charts for governance and sustainability. Investors are taking an increasing interest in compliance.



Petrobras is one of the large Brazilian issuers leading the way on sustainability

management can improve margins and returns. "Studies show that complete ethics programs can reduce a company's entire operating expenses by 5%-15%," says the analyst. "Big polluters have ROA's 1% to 6% lower than lighter polluters in

the same sectors. Energy conservation programs can depress energy costs by between 7% and 15%," he adds.

In addition, notes Cox, more mutual funds and private banking assets are expected to be managed according

Power Sector Ranking

Brazil comes top

Name	Country	CSR	CG	Sustainability	Total
CPFL	Brazil	100%	97%	95%	96%
Eletroras	Brazil	44%	26%	55%	46%
Endesa	Chile	75%	65%	79%	75%
Cemig	Brazil	63%	59%	71%	67%
Energis	Chile	31%	47%	42%	42%
Average		63%	59%	68%	

Source: M&E



Iron ore miner Vale is good at CSR, but corporate governance falls short

to sustainability criteria. He notes a study from Robeco/Booz Allen predicting a sharp rise in money chasing sustainability criteria. Cox adds that the Dow Jones Sustainability Indexes have outperformed the MSCI World index to the tune of 153.5% versus 58.0% in dollars since 1993.

“With sustainability as a key investment criterion, better sustainability standings will ultimately get issuers a bigger share of the huge capital flows into sustainably well run companies,” says Cox. “Corporates are using sustainability to differentiate themselves from competitors and to attract fresh capital,” he adds.

Luring capital does not only mean presenting a good story to investors, notes Cox. It also means convincing lenders and NGOs. The IFC asks

its clients to implement social and sustainability programs to reduce credit, legal and reputational risks, he adds.

Other trends include detailed publicity of varied risks, a point emphasized more than ever by SAM, the firm compiling the DJSI. Another is oil and gas companies’ very visible investments in alternative energies, and all companies’ efforts to comply with Global Reporting Initiative (GRI) standards, releasing highly detailed sustainability reports and having sustainability compliance audited to incite further trust among markets and stakeholders.

CPFL Beacon

The winners, CPFL, Vale and Petrobras, all publish annual and separate sustainability reports with more and

more numbers on such details as emissions, legal actions, injuries, environmental and social investments. The reports go well beyond annual reports to provide a solid view of management strength, processes and risk management, says M&E.

CPFL does best across all three sectors tested, with a total score of 96% and a fairly even balance all three areas of governance (100%), CSR (97%) and sustainability (95%).

“If a company has small differences in performance between these areas, it normally tells you that its overall management, and by implication, risk/opportunity control systems are strong,” says Cox. “Uneven performance among areas shows that there are weaknesses which may be symptomatic of worse surprises below the surface,” he adds. The M&E survey shows iron ore miner strong in CSR (94%), yet relatively weak in governance with 76%, for example.

Weaker firms, such as Copec, YPF, Grupo Mexico and Enersis, are by no means poorly managed, says M&E. They may just be suffering from defects in their transparency. Yet gaps in transparency itself reflect gaps in management quality, notes Cox.

Demanding Transparency

Cox says that sustainable investing (SI) will grow in importance and volume as it goes mainstream. “Investors rightly see SI as granting them insight into companies’ processes which underlie good performance,” says the analyst.

Smaller topics such as governance, green credentials, as well as social and ethical investing are all merging into sustainable investing, which means good management of everything from risk to HR and marketing, says M&E.

Strong compliance with sustainable criteria will no longer be sufficient to differentiate companies for investors, predicts Cox. As 317 firms belong to the DJSI, for example, investors expect more insight into the financial returns of sustainable investments, such as governance or social programs.

“Compliance no longer equals good performance even though it is a good

Oil & Gas Ranking

Petrobras tops the chart

Name	Country	CSR	CG	Sustainability	Total
Petrobras	Brazil	88%	82%	79%	81%
Ecopetrol	Colombia	63%	59%	62%	61%
OGX Petroleo	Brazil	38%	44%	49%	46%
YPF	Argentina	38%	41%	43%	42%
Copec	Chile	31%	26%	38%	35%
Average		52%	50%	54%	

Source: M&E

start. We'll see companies doing more to show the financial returns of a training or IT program, for example. And we'll see them quantifying reductions in risk resulting from sustainable investments," says Cox.

A properly run community program, for example, can both increase client loyalty and reduce the risk of fines and legal action. But companies need to attach numbers to these results.

In addition, governance as it is known in SOX, SEC and NYSE compliance is becoming a formality. Too many governance compliant companies went bust or almost did so during the crisis. Governance showed that it could not hedge risk, says Cox.

Overall, Cox is surprised by the diversity of scores between sectors and countries, particularly with companies in such similar businesses and as sustainability standards becoming more

Mining Sector Ranking

Vale takes wide lead

Name	Country	CSR	CG	Sustainability	Total
Vale	Brazil	94%	76%	91%	88%
Usiminas	Brazil	88%	53%	60%	62%
Gmexico	Mexico	75%	41%	57%	55%
Southern Peru	Peru	38%	53%	50%	49%
Cemex	Mexico	38%	38%	55%	49%
Average		67%	52%	63%	

Source: M&E

universal. The M&E study considers 137 areas and sticks to a facts-only approach, measuring actual compliance with accepted standards in CG, sustainability and CSR.

M&E researched each company using public sources, then sent the results to each company for confirmation or correction. But there appears to be still

quite some way to go for LatAm.

"Investor relations departments, on average, still operate poorly and ineffectively, not returning the corrected questionnaires in time," says Cox. "They do not appear to know many of their own sustainability facts and have a difficult time researching their own compliance with simple standards," he adds. **LF**



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