

GOVERNANCE IS INCREASINGLY AT THE HEART OF INVESTMENT DECISIONS, NEW MCKINSEY SURVEY SHOWS

Investors Eager for Greater Accounting Disclosure, Other Broad Reforms

LONDON, July 8, 2002 -- In the wake of major corporate failures around the world, institutional investors use corporate governance criteria to drive investment decisions, according to the latest Investor Opinion Survey released today by McKinsey & Company. Strengthening the quality of accounting disclosure should be the top priority of reform.

McKinsey's new survey of more than 200 institutional investors in 31 countries revealed that corporate governance has moved to the heart of investment decisions, with more than 60% of the investors stating corporate governance considerations might lead them to avoid individual companies. Investors are concerned most with financial disclosure, with 90% favoring the introduction of a single global accounting standard.

"Investors are saying loudly and clearly that they want to have more faith in the integrity of corporate conduct and reporting," said Paul Coombes, a director with McKinsey & Company in London. "Factors such as greater financial disclosure, strengthened shareholder rights and more board independence remain critical. Reform priorities vary by region and country. However the overall message is clear – investors want financial information they can trust, the ability to hold the board and management to account, and strong checks on abuses."

Corporate governance is at the heart of investment decision

Investors put corporate governance on a par with financials when evaluating investment decisions. In fact, an overwhelming majority is prepared to pay a premium for companies exhibiting high governance standards, according to the survey. Premiums averaged 12-14% in North America and Western Europe; 20-25% in Asia and Latin America; and more than 30% in Eastern Europe and Africa.

"Investors will pay a premium on a well-governed company. The level of the premium within any country depends on the general standard of governance in that market. Over the last two years we see some narrowing of premiums and this reflects the governance reforms that many countries have been implementing," Mr. Coombes said.

Sixty three percent of investors surveyed said that governance considerations might lead them to avoid individual companies with poor governance, and 57% said they might decrease or increase their holdings in certain companies based on governance. Nearly one third would avoid entire countries that had a reputation for poor governance.

Financial disclosure is a pivotal concern

In pursuit of better accounting disclosure, 90 % of investors support a single unified global accounting standard. However, investors are split down the middle on the preferred standard.

Investors are strongly in favor of expensing stock options in P&L statements, with over 80 percent supporting such a change.

Investors' reform priorities focus on rebuilding the integrity of the system

After strengthening corporate transparency (52%), investors believe companies should create more independent boards (44%) and achieve greater boardroom effectiveness (38%) through such steps as better director selection, more disciplined board evaluation processes, and greater time commitment from directors.

Specific policy priorities include strengthening shareholder rights (33%), improving accounting standards (32%), promoting board independence (31%) and tighter enforcement of existing regulations (27%).

“Much of the reform over the last few years has been exclusively focused on changing corporate behavior. Going forward, policymakers need to focus on consolidating the framework for good governance, leaving companies to implement those changes that ensure a focus on shareholder value” Mr. Coombes said. “Capital market regulators and standard-setters should strengthen market regulation and infrastructure and accounting standards, while in emerging markets, politicians need to ensure property rights are enforceable and maintain downward pressure on corruption.”

NOTES TO EDITORS

McKinsey & Company's Global Investor Opinion Survey was undertaken between April and May 2002, in cooperation with the Global Corporate Governance Forum. The survey covers 31 countries, and now includes Canada, China, Egypt, India, Morocco, Philippines, Poland, Russia, Singapore, South Africa and Turkey.

The survey is based on responses from over 200 institutional investors, collectively responsible for some USD 2 trillion of assets under management (their organizations manage an estimated USD 9 trillion AuM). Participants range in size, come from a range of countries, and include a spectrum of institutions, such as pension funds, mutuals, money managers, private equity firms and banks.

McKinsey & Company is a management-consulting firm that helps leading corporations and organizations make distinctive, lasting and substantial improvements in their performance. Over the past seven decades, the Firm's primary objective has remained constant: to serve as an organization's most trusted external advisor on critical issues facing senior management. With approximately 7,500 consultants deployed from 84 offices in 44 countries, McKinsey advises companies on strategic, operational, organizational and technological issues. The Firm has extensive experience in all major industry sectors and primary functional areas as well as in-depth expertise in high-priority areas for today's business leaders.

For further information, please contact Mark Watson (tel: 1 212 446 8021) or Paul Coombes (tel: 44 20 7961 5493). This survey and others can be downloaded from www.mckinsey.com/governance.