Corporate Board Seen as Aligned With Management Rather Than Shareholders, According to a New Survey by FTI Consulting and FD

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Perception of Misplaced Allegiances is Negatively Affecting Corporate Reputations, According to High-Net Worth Investors and Financial Advisors

Five Years Later, Sarbox Seen as Having Limited Impact on Improving Governance Practices

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FTI Consulting (NYSE: FCN), the global business advisory firm dedicated to helping organizations protect and enhance their enterprise value and its strategic communications subsidiary FD, today released findings of a new survey showing that in the opinion of the surveyed high-net worth investors and financial advisors, corporate board members are too closely aligned with the interests of executive management teams, as opposed to shareholders.

The survey of more than 200 high-net-worth investors and professional financial advisors, administered by independent research firm Affluent Dynamics, revealed that clear majorities (61 percent of financial advisors and 64 percent of high-net-worth individuals) say that boards operate in the interests of management, rather than those of shareholders. Based on these findings, corporations have significant work to do to reassure investors and their advisors about the effectiveness and quality of corporate governance practices and whether these practices are appropriately safeguarding corporate reputation, which both groups consider to be crucial in the creation of shareholder value. More specific findings of the survey follow:

A strong link is seen between effective governance and corporate reputation. The overwhelming majority (87 percent of advisors and 88 percent of investors) see a close connection between effective corporate governance and a company's reputation. Thus, the perception of boards as operating in management's interests – not shareholders' – is problematic for corporate reputation, as boards' alignment with shareholders is a fundamental corporate governance issue.

Both advisors and investors ascribe significantly more market value to corporate reputation than they do to board quality. Eighty-two percent and 71 percent of financial advisors and high-net-worth investors respectively believe reputation accounts for more than 20 percent of a company's market value, compared to only 29 percent and 20 percent respectively who think boards account for more than 20 percent of market value. “Given Wall Street's increased focus on improving corporate governance and having more effective risk management programs in place, corporate boards concerned with an enterprise-wide approach to risk management should heed the findings of this study,” said Jack Dunn, President and Chief Executive Officer of FTI Consulting. “Reputation risk is clearly an important component of overall enterprise risk, and clearly the perception of the board as acting in the interest of management rather than shareholders represents a significant enterprise risk. The gap between perception and reality is not always very significant, so ignoring the connection between the perception of a company's governance practices and its link to a company's overall corporate reputation can be a serious omission.”

Five years later, Sarbox is perceived to have had a limited impact in driving improved corporate governance. Despite the time and cost invested in Sarbanes-Oxley compliance since the law's passing in 2002, a relatively small percentage of respondents (13 percent of financial advisors; 12 percent of high-net-worth investors) believe that corporate governance practices have improved “a great deal” since the act's passage, while 45 percent of financial advisors and 43 percent of high-net worth individuals think that post-Sarbox governance practices have improved only “a moderate amount.” These findings track with a survey of institutional investors conducted by FD just following Sarbox's passage, which showed that a plurality of respondents (40 percent) did not think the bill's provisions were adequate to significantly strengthen corporate accountability.

Effective and respected boards can enhance share value. Fully 56 percent of financial advisors and 41 percent of high-net-worth investors said a board accounts for more than 10 percent of a company's share value. As discussed earlier, what's problematic about this assessment of boards' substantial contribution to valuation is that a majority of respondents also do not perceive boards to be aligned with shareholders' interests. Commenting on these findings, Harlan Teller, Vice Chairman and Chief Knowledge Officer at FD-US, said, “Investors and professional advisors see a quality board as a determinant of driving enterprise value, but by the same token, they think boards aren't operating in their interests. This is chilling news for corporate boards, and should serve as a wake-up call that there's still a ways to go for corporate boards to be seen as working in the interests of those they're supposed to be serving, namely the shareholder. Even in a post-Sarbox world, it's clear that investors still don't have the level of confidence they should in the way U.S. corporations practice corporate governance.”

Relevant expertise and independence are the most prized commodities for a quality board member. The overwhelming majority surveyed cite expertise (88 percent of financial advisors; 78 percent of high-net-worth investors) and independence (64 percent of financial advisors; 69 percent of high-net-worth investors) as the two characteristics they look for when measuring the qualifications of a board member. Moreover, they report there is at least some correlation between the quality of the board and its independence from management (a connection seen by 88 percent of financial advisors and 91 percent of high-net-worth investors). They pay far less attention to the age of board members and whether or not the board member is either a sitting or former CEO.

“Investors aren't looking for people with fancy titles to serve on the board. Instead, their top priority is expertise and experience that is germane to the business,” continued Mr. Teller. “Companies are missing an opportunity to communicate specifically and precisely about the qualifications of their board members and why they are likely to operate as effective stewards of shareholder value.” This lost communications opportunity, Mr. Teller noted, is reflected in the survey's finding that 67 percent of financial advisors and 58 percent of high-net-worth investors believe that companies do not provide adequate communications about their corporate governance practices.

FTI and FD conducted the online survey in September 2007. Administered by Affluent Dynamics, the survey covered professional financial advisors and active individual investors with $1 million of investable assets or more, seeking to determine their perspectives on a number of issues relating to corporate governance and corporate reputation. One hundred financial advisors and 102 active individual investors responded to the survey.

About FTI Consulting

FTI Consulting, Inc. is a global business advisory firm dedicated to helping organizations protect and enhance enterprise value in an increasingly complex legal, regulatory and economic environment. With more than 2,200 professionals located in most major business centers in the world, we work closely with clients every day to anticipate, illuminate, and overcome complex business challenges in areas such as investigations, litigation, mergers and acquisitions, regulatory issues, reputation management and restructuring. More information can be found at www.fticonsulting.com.

About FD

One of the most highly regarded consultancies in the communications industry, FD employs more than 550 staff and advises more than 750 clients worldwide through its hub offices in London and New York, as well as its network of wholly owned offices in Boston, Chicago, San Francisco, and Washington, D.C. in the U.S., as well as Bahrain, Beijing, Cape Town, Dubai, Dublin, Frankfurt, Hong Kong, Johannesburg, Manchester, Moscow, Paris, Sydney and Stockholm. With a 20-year history of advising clients in both the private and public sectors, FD's services include financial public relations, investor relations, public affairs, crisis and issues management and corporate, business-to-business and business-to consumer communications. FD is also a market leader in M&A advisory work. FD is structured around specialist sector teams operating on an international basis, covering consumer industries, financial services, basic industries, business services, life sciences & healthcare, media, technology and telecommunications. FD is a division of FTI Consulting Inc., the global business advisory firm. For more information, please visit www.fd.com.

About Affluent Dynamics

Affluent Dynamics is an independent market research firm focused on the high-net-worth marketplace. Through a unique online panel of affluent individuals and investors, the firm helps corporate clients understand their customers' needs by using sophisticated marketing research techniques and analytics that provide in-depth knowledge of preferences, motivations and behavior. Affluent Dynamics also has extensive experience in sales, marketing and general management at companies such as A.C. Nielsen, Ameritrade, Citigroup, Kraft and Unilever.