PRIVATE COMPANY SURVEY REPORT

INSTITUTE FOR EXCELLENCE IN CORPORATE GOVERNANCE

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&
Private Company Governance Committee Members
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1 We gratefully acknowledge the excellent research assistance of Mr. Zhongwen Fan.
1. GENERAL QUESTIONS (ALL RESPONDENTS)

Roughly one-third of the respondents state that their company does not have a fiduciary board.

82% have a fiduciary board, an advisory board, or both.

IECG’s definition of corporate governance resonates with the CEOs.

<table>
<thead>
<tr>
<th>Current board(s)</th>
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<tbody>
<tr>
<td>Only Fiduciary, 43%</td>
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<tr>
<td>Both, 23%</td>
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<tr>
<td>No Board, 18%</td>
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<tr>
<td>Only Advisory, 16%</td>
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</table>

Do you agree that an environment where the Company has the people, processes, resources, and culture to enable a thoughtful, proactive focus on strategy, risk, operations and compliance will maximize the opportunity for successful results for all stakeholder groups?

| Yes, 98.85%            |
| No, 1.15%              |
Firms without boards see potential value in adding an advisory board.

However, they do not see as much value in adding a fiduciary board.
Most firms believe that a board (either fiduciary or advisory) would add value in the areas of firm growth and regulatory and compliance expertise.

Respondents are split almost 50/50 with respect to the value an independent director.

Concerns about loss of control and costs inhibit private firms from adding boards.
Financial expertise on an advisory board is most common. Only 23% of advisory boards have an expert on regulatory issues or future trends.

The advisory board’s level of interaction with other C-suite executives is split 50/50.

### Only Advisory: Areas of expertise represented on the advisory board

- Financial, 85%
- Industry Operations, 62%
- Industry Customers, 46%
- Legal, 31%
- Regulatory, 23%
- Future Trends, 23%
- Academic, 23%
- Technology, 15%
- Risk Management, 15%
- Investment Banking, 15%
- Government, 15%
- Political, 8%
- International, 8%
- Human Resources, 8%

### Only Advisory: Do advisory board members interface directly with C-level executives other than the CEO?

- Yes, 50%
- No, 50%
Advisory boards help firms primarily with corporate strategy and industry expertise.

Only Advisory: In what ways does the advisory board add value?

- Strategic Insight and Direction, 77%
- Sounding Board for the CEO, 69%
- Industry Expertise, 46%
- Legal & Regulatory Compliance, 38%
- Industry Connections, 38%
- Growth, 38%
- Corporate Finance Connections, 38%
- Corporate Finance Knowledge, 38%
- Competition Insights, 31%
- Customer Introductions, 31%
- Operations Insights and Performance Improvement, 31%
- Risk Identification and Mitigation, 23%
- Helped Avoid a Strategic Error We Would Otherwise Have Made, 15%
- M & A Expertise, 15%
- Governmental Connections, 15%
- Financial Expertise, 15%
- Other-Specific Specialized Expertise or Connections, 8%
- Liquidity, 8%
4. RESPONDENTS WITH FIDUCIARY BOARD ONLY

A small portion of firms started with advisory boards before having a fiduciary board.

Half of the fiduciary boards are well organized: they designate members to specific committees.
Audit and compensation committees are the most prevalent.

All fiduciary boards provide active input and approval to CEOs.

Only Fiduciary: Types of committees

- Audit, 91%
- Compensation, 86%
- Nominating & Governance, 41%
- Strategy, 9%
- Risk Management, 9%
- Succession Planning, 5%

Only Fiduciary: How is the board involved in oversight of

- Periodically Informed by Management, 100.00%
- Active Providing Input and Approval, 100.00%
Nearly all of them have the power to make CEO succession and CEO compensation decisions.

In most cases, the CEO does not have sufficient ownership stake in the company to appoint directors.

Nearly 70% of firms have 4 to 7 members.

<table>
<thead>
<tr>
<th>Only Fiduciary: For which areas does the board have decision-making power?</th>
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<tbody>
<tr>
<td>CEO Succession, 92%</td>
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<tr>
<td>CEO Compensation, 90%</td>
</tr>
<tr>
<td>Board Membership, 79%</td>
</tr>
<tr>
<td>Strategy, 72%</td>
</tr>
<tr>
<td>Legal or Regulatory Compliance, 51%</td>
</tr>
<tr>
<td>Other (please specify), 3%</td>
</tr>
</tbody>
</table>

<table>
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<tr>
<th>Only Fiduciary: As the CEO, do you have sufficient ownership to appoint directors?</th>
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<tr>
<td>Yes, 31%</td>
</tr>
<tr>
<td>No, 69%</td>
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</table>

<table>
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<tr>
<th>Only Fiduciary: How many total directors do you have?</th>
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<tr>
<td>0-3, 23%</td>
</tr>
<tr>
<td>4-7, 69%</td>
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<tr>
<td>8-10, 8%</td>
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</tbody>
</table>
There is wide variation in the number of employees on fiduciary boards.

Similarly, there is wide variation in the number of firm owners on fiduciary boards.
One-third of firms have no independent directors on the board.

56% of respondents desire an increase in board independence.

Only Fiduciary: How many can be classified as independent directors?

- 0, 33%
- 1, 21%
- 2, 13%
- 3, 15%
- 4, 15%
- 5 or more, 3%

Only Fiduciary: Would you see value in having some number (or an increased number) of independent directors?

- Yes, 56%
- No, 44%
While formal processes exist for meetings and communication, there is lack of formal processes for other roles.

64% of respondents state that they face no obstacles.

A majority of firms have annual fees for board meetings.
Half of firms provide stock options to board members.

Boards add value primarily with corporate strategy and financial expertise.
5. RESPONDENTS WITH BOTH ADVISORY AND FIDUCIARY BOARDS

Fiduciary boards are typically added before advisory boards.

Over half of the fiduciary boards designate members to specific committees.

Both Boards: Did the company have an advisory board before it had the fiduciary board?

- Yes, 39%
- No, 61%

Both Boards: Does the fiduciary board have committees?

- Yes, 39%
- No, 61%
Risk management committees are formed less frequently than the others (compensation, audit, strategy, and nominating & governance).

When boards play a more active role in advising / monitoring management, their key responsibilities are to provide input re: mergers and acquisitions, CEO succession planning, and corporate strategy.

When boards play a less active role in advising / monitoring management, their key responsibility is to provide oversight re: corporate performance.
50% of the respondents state that neither their advisory board nor fiduciary board provide input regarding cybersecurity issues.

Although CEO succession planning is an important function of fiduciary boards (see earlier Qs), only 44% of boards have actual decision-making power over CEO succession.

Among firms with both types of boards, the CEO often has sufficient ownership stake in the company to appoint directors.
Average board membership is 4-7 people.

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<th>Both Boards: How many total directors do you have?</th>
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<tr>
<td>0-3, 39%</td>
</tr>
<tr>
<td>4-7, 50%</td>
</tr>
<tr>
<td>8-10, 11%</td>
</tr>
</tbody>
</table>

There is wide variation in the number of fiduciary and/or advisory board members that are also company employees.

<table>
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<th>Both Boards: How many are employees?</th>
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<tbody>
<tr>
<td>1, 39%</td>
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<tr>
<td>4, 11%</td>
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<tr>
<td>5 or more, 11%</td>
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</table>
Similarly, there is wide variation in the number of board members that are company owners.

One third of companies with both fiduciary and advisory boards have no independent directors on the board.
61% of respondents see value in increasing board independence.

While meetings and communication are formalized processes, fiduciary and/or advisory boards typically lack formal processes for its other activities.

The most common obstacles on working with boards are (1) the ability to coordinate decisions on a timely basis and (2) lack of industry expertise.

### Both Boards: Would you see value in having some number (or an increased number) of independent directors?

- Yes, 61%
- No, 39%

### Both Boards: Do you have a formal process, with actions and responsibilities, for

- Meetings and communication?, 92%
- Committee formation and reporting?, 50%
- Identifying new board candidates, assessment, and invitation?, 33%
- Annual Board evaluation?, 17%

### Both Boards: What obstacles exist in working with the board?

- No Obstacles, 56%
- Ability to make decisions on a timely basis, 22%
- Lack of Adequate Industry Knowledge, 22%
- Other (please specify), 11%
- Lack of Board Experience, 11%
- Internal Board Conflicts, 6%
At companies with both an advisory and fiduciary board, restricted stock, synthetic options and option grants are used with equal frequency.

Annual cash compensation and per meeting cash allowances are used with equal frequency.
Fiduciary boards add the most value through their ability to provide strategic insight and direction for the firm and its CEO.

Only 22% of advisory boards have an expert on future trends and only 11% have an expert on risk management.
When companies have both types of boards, their advisory board members are typically able to interface directly with C-suite executives other than the CEO.

Only half of the respondents state that their advisory board members meet with their fiduciary board members.

### Both Boards: Do advisory board members interface directly with C-level executives other than the CEO?

- **Yes, 72%**
- **No, 28%**

### Does the advisory board meet with the fiduciary board?

- **Yes, 50%**
- **No, 50%**
Relative to fiduciary boards, advisory boards are more valuable in terms of industry expertise, competition insights, and customer introductions.
The majority of respondents are the CEO of their respective company.

Most of the private company respondents are in either the mature or high growth stages of development.
Sale of the majority interest stake is unlikely in the near future.

IPOs are unlikely in the near future.

82% of the respondents have a fiduciary board, an advisory board, or both (see Q1); in line with that, the same percentage of respondents state that the board is responsible for governance.
In what way does the company oversee:

<table>
<thead>
<tr>
<th>Do not have a board</th>
<th>Have an advisory board</th>
<th>Have a fiduciary board (traditional board)</th>
<th>Have both an advisory and a fiduciary board</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proactive Culture, 20.00%</td>
<td>Proactive Culture, 18.57%</td>
<td>Informal Processes, 94.55%</td>
<td>Reactive Culture, 30.77%</td>
</tr>
<tr>
<td>External Resources, 18.18%</td>
<td>Internal Resources, 18.18%</td>
<td>Formal Processes, 50.00%</td>
<td>Internal Resources, 25.97%</td>
</tr>
<tr>
<td>Reactive Culture, 15.38%</td>
<td>Informal Processes, 15.91%</td>
<td>Internal Resources, 41.56%</td>
<td>Formal Processes, 24.00%</td>
</tr>
<tr>
<td>Internal Resources, 14.29%</td>
<td>Reactive Culture, 15.38%</td>
<td>Proactive Culture, 41.43%</td>
<td>Informal Processes, 20.45%</td>
</tr>
<tr>
<td>Formal Processes, 14.00%</td>
<td>Formal Processes, 12.00%</td>
<td>External Resources, 40.01%</td>
<td>Proactive Culture, 20.00%</td>
</tr>
<tr>
<td>Informal Processes, 9.09%</td>
<td></td>
<td>Reactive Culture, 38.46%</td>
<td>External Resources, 15.91%</td>
</tr>
</tbody>
</table>

A comparison of the four graphs reveals that respondents in the “fiduciary board only” category most frequently stated that their company oversees a proactive culture (41% versus approximately 20% response rate in all other categories).
There is a wide variation in revenue and revenue growth among our respondent firms.

56.5% of respondent firms employ between 0 and 99 employees.
There is wide variation in size; roughly 78% of the firms have less than $50M in assets.

Firms are widely distributed across industry/sectors.

Very few of the firms surveyed have patents.
The respondent firms serve an international clientele base.

65% of the respondent firms sell to international customers, but do not otherwise have international operations or facilities.

If the respondent operates in a foreign country (other than the USA), Europe and Asia are the most common.

**Does your company serve international clients?**

- Yes, 57.65%
- No, 42.35%

**Global Presence: Sales Only**

- Yes, 64.58%
- No, 35.42%

**Global Presence: International In-Country Operations**

- Europe, 71.88%
- Asia, 40.63%
- Latin America, 31.25%
- Other, 21.88%
- Middle East, 18.75%
- Africa, 12.50%
Most of the respondent firms are owned, on average, by 2-5 individuals.

Only 32% of the respondent firms are family-owned.

Owned only by individuals

- Yes, 71.43%
- No, 28.57%

# of Individuals

- 1, 12.16%
- 2-5, 45.95%
- 6-30, 29.73%
- Over 30, 12.16%

Family Business:

- Yes, 32.14%
- No, 67.86%
Most firms are owned by the first generation of owners.

Only a small subset of the firms surveyed have employee stock ownership plans.

22% have majority ownership by private equity or venture capitalists.
Very few are minority owned by private equity or venture capitalists.

There is variation among our sample firms in terms of entity type.

Half of the firms have been funded at some point by bank or private sources of debt.
In 77% of firms the CEO owns a majority of voting shares in the company.

Among those firms with ESOPs, half (51%) have a system in place through which employees can liquidate their stock.

<table>
<thead>
<tr>
<th>Does any one person or entity, other than yourself, control over 50% of the voting shares of your company?</th>
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<tbody>
<tr>
<td>Yes, 22.62%</td>
</tr>
<tr>
<td>No, 77.38%</td>
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<tr>
<th>If employees are given stock ownership, is there a process for them to have a liquidity event so they can cash out some or all of their ownership other than an IPO or sale of the Company?</th>
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<tbody>
<tr>
<td>Yes, 51.22%</td>
</tr>
<tr>
<td>No, 48.78%</td>
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