

THE UNIVERSITY OF TEXAS AT DALLAS

# PRIVATE COMPANY SURVEY REPORT<sup>1</sup>

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INSTITUTE FOR EXCELLENCE  
IN CORPORATE GOVERNANCE

Faculty

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&

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<sup>1</sup> We gratefully acknowledge the excellent research assistance of Mr. Zhongwen Fan.

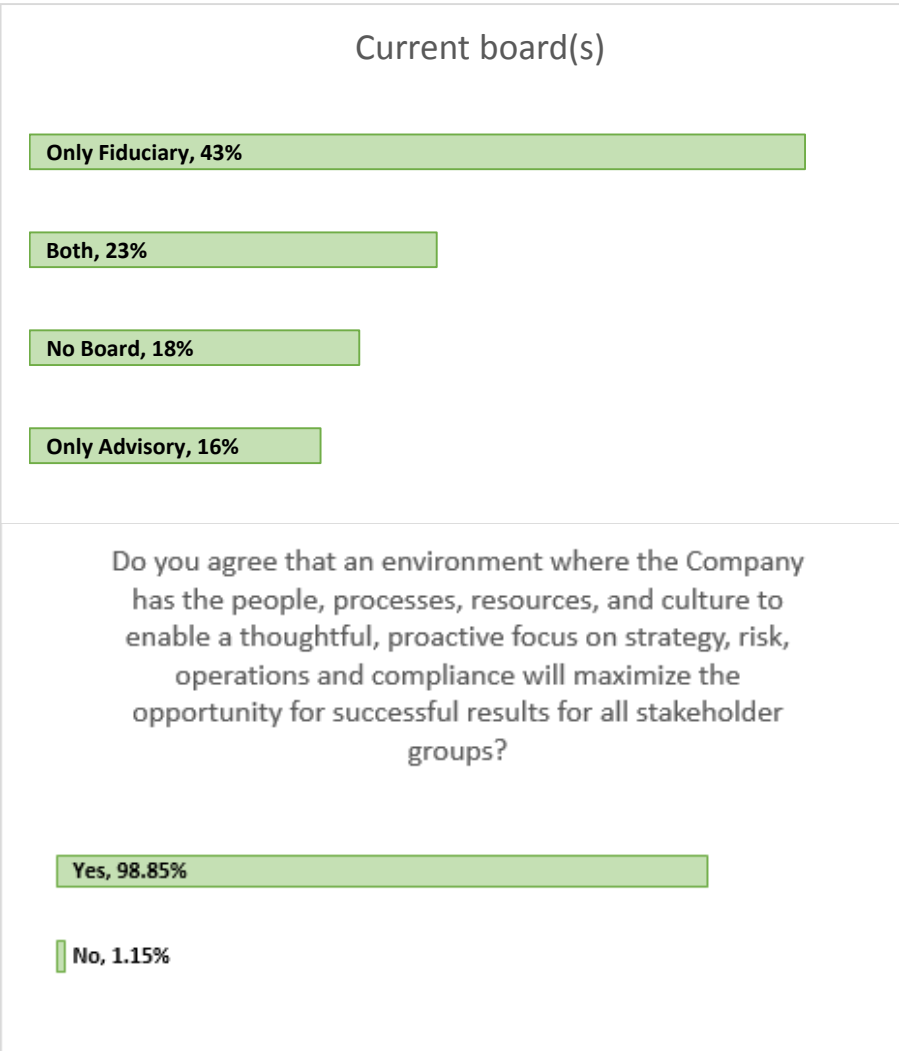
1. GENERAL QUESTIONS (ALL RESPONDENTS)

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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.

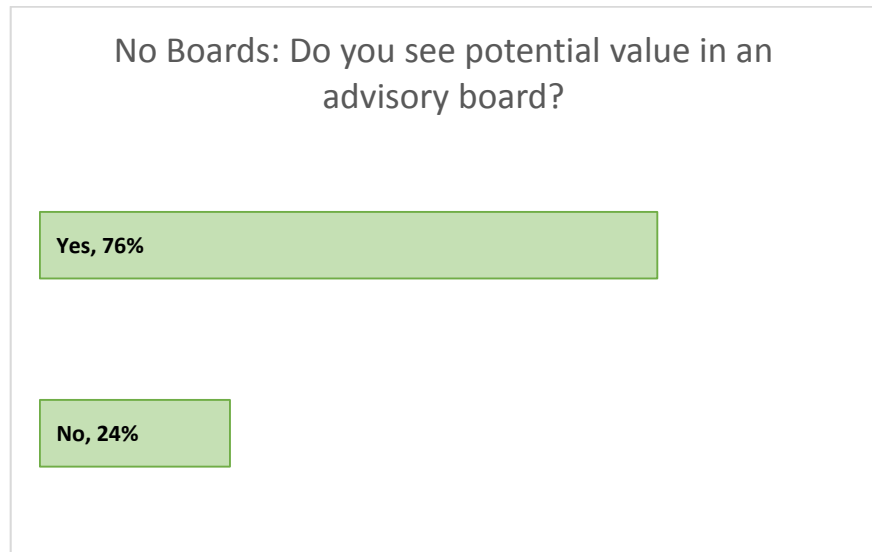
IECG’s definition of corporate governance resonates with the CEOs.



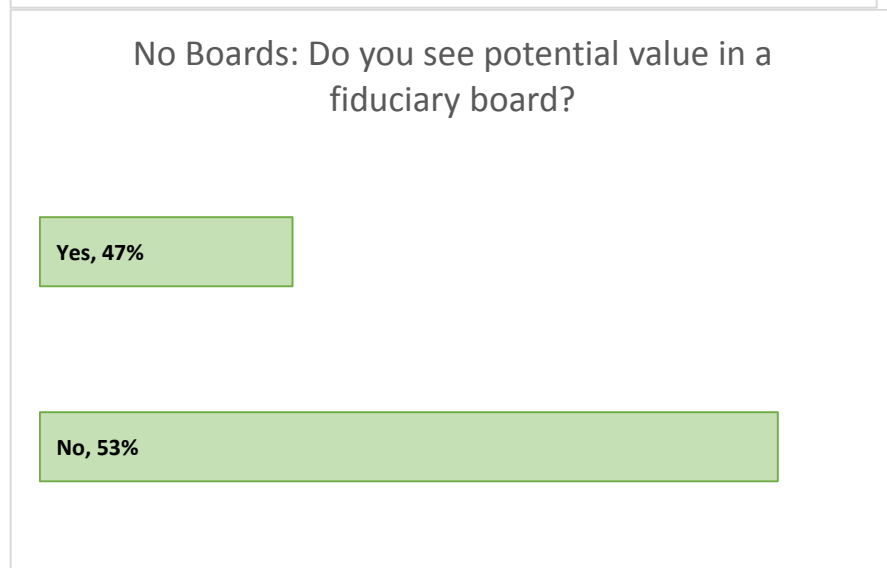
## 2. RESPONDENTS WITH NO BOARD

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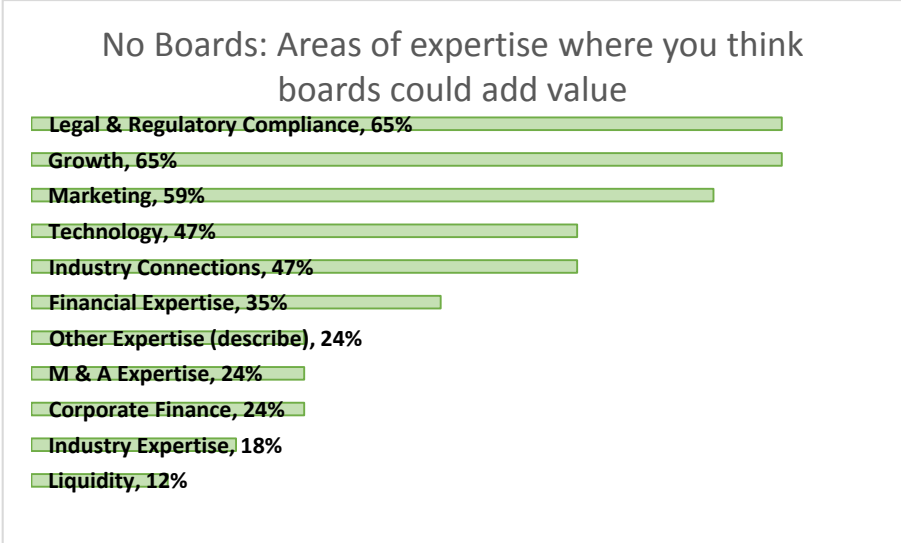
Firms without boards see potential value in adding an advisory board.



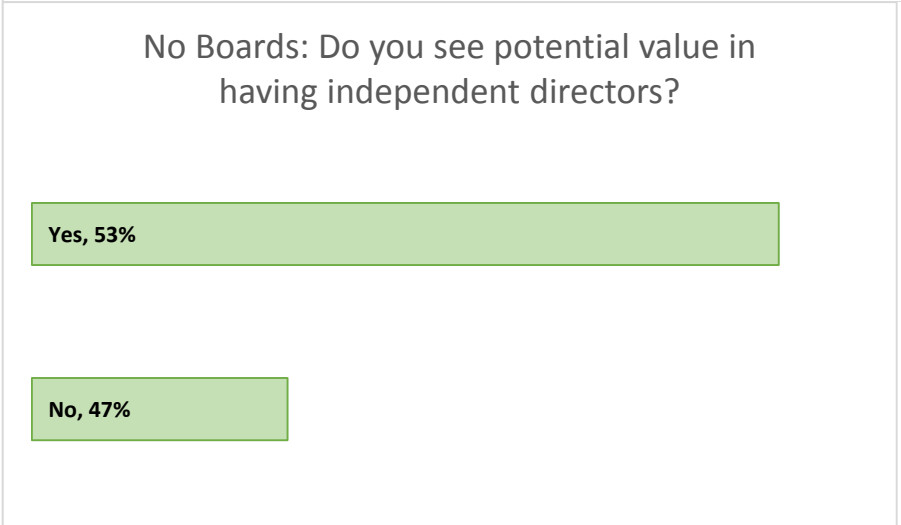
However, they do not see as much value in adding a fiduciary board.



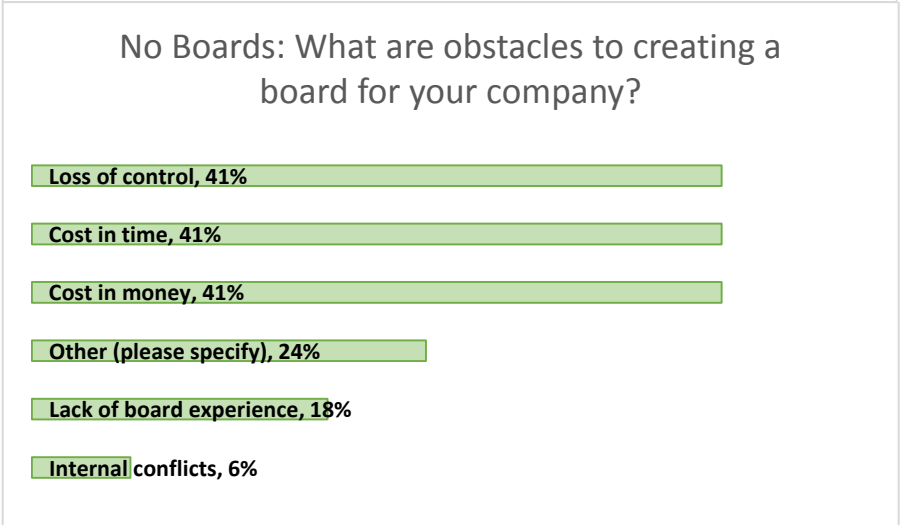
Most firms believe that a board (either fiduciary or advisory) would add value in the areas of firm growth and regulatory and compliance expertise.



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



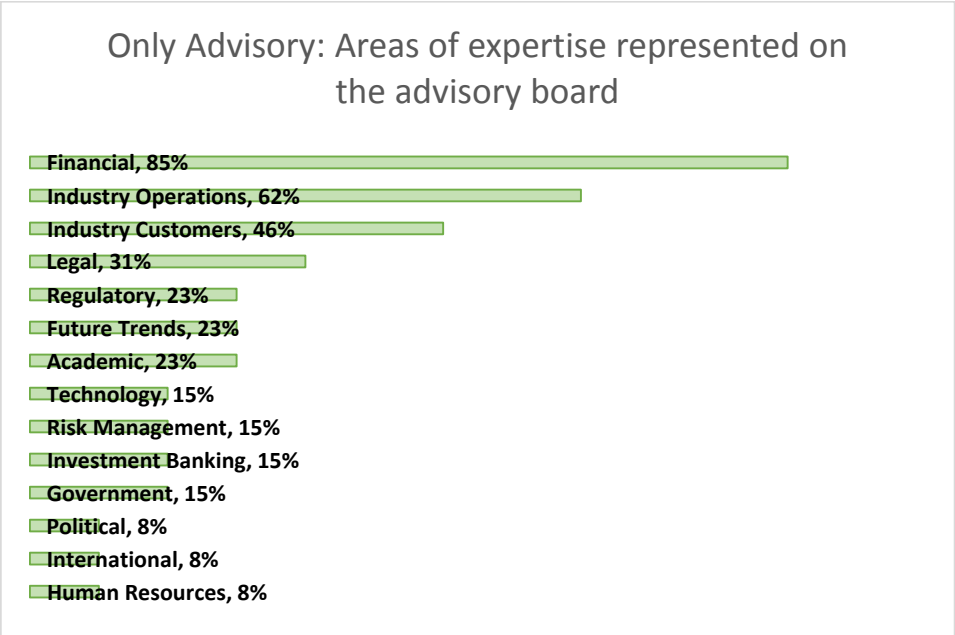
Concerns about loss of control and costs inhibit private firms from adding boards.



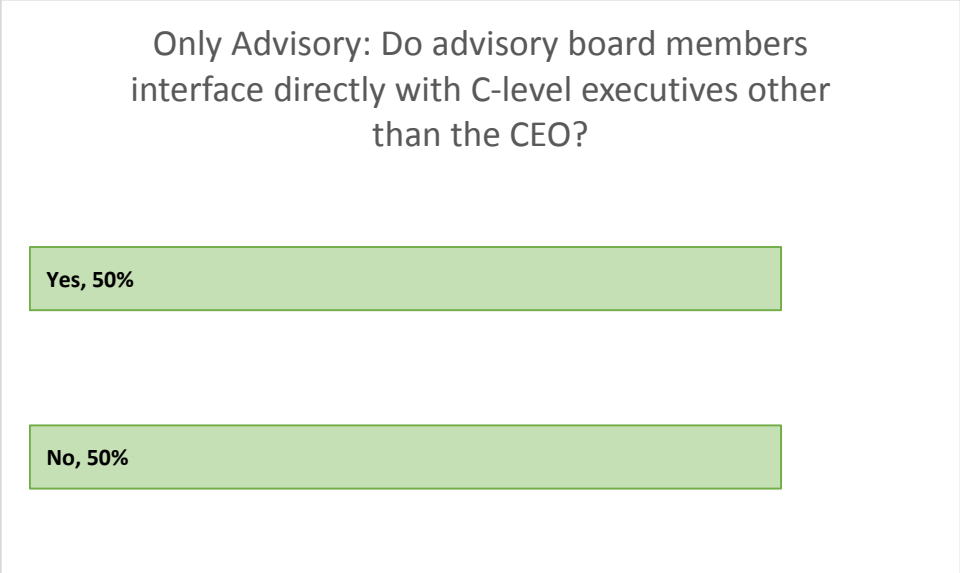
### 3. RESPONDENTS WITH ADVISORY BOARD ONLY

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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.



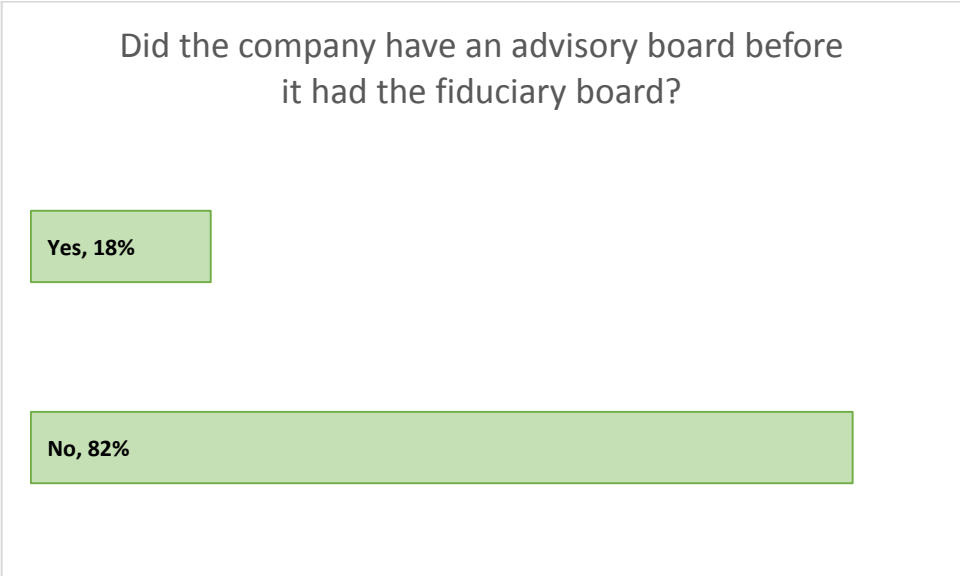
Advisory boards help firms primarily with corporate strategy and industry expertise.



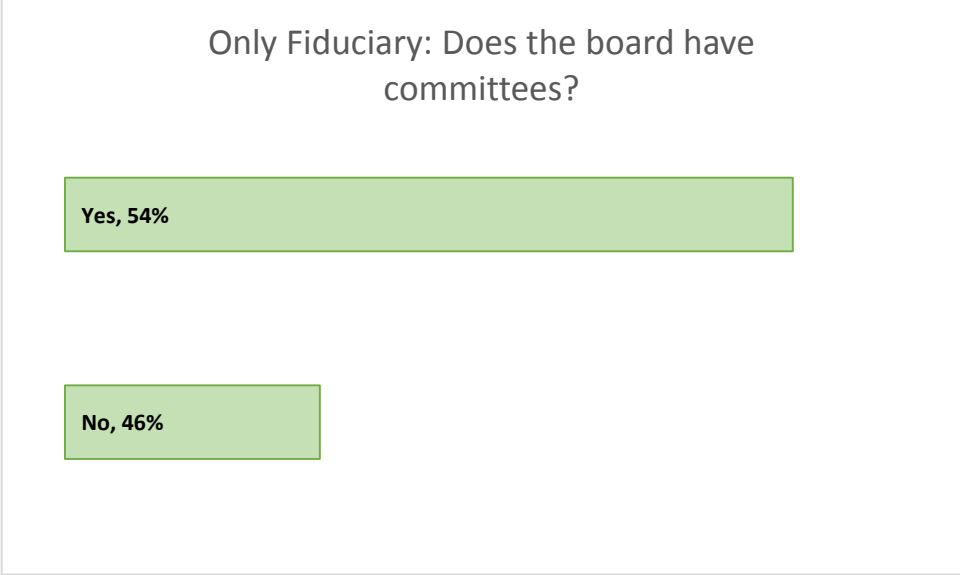
# 4. RESPONDENTS WITH FIDUCIARY BOARD ONLY

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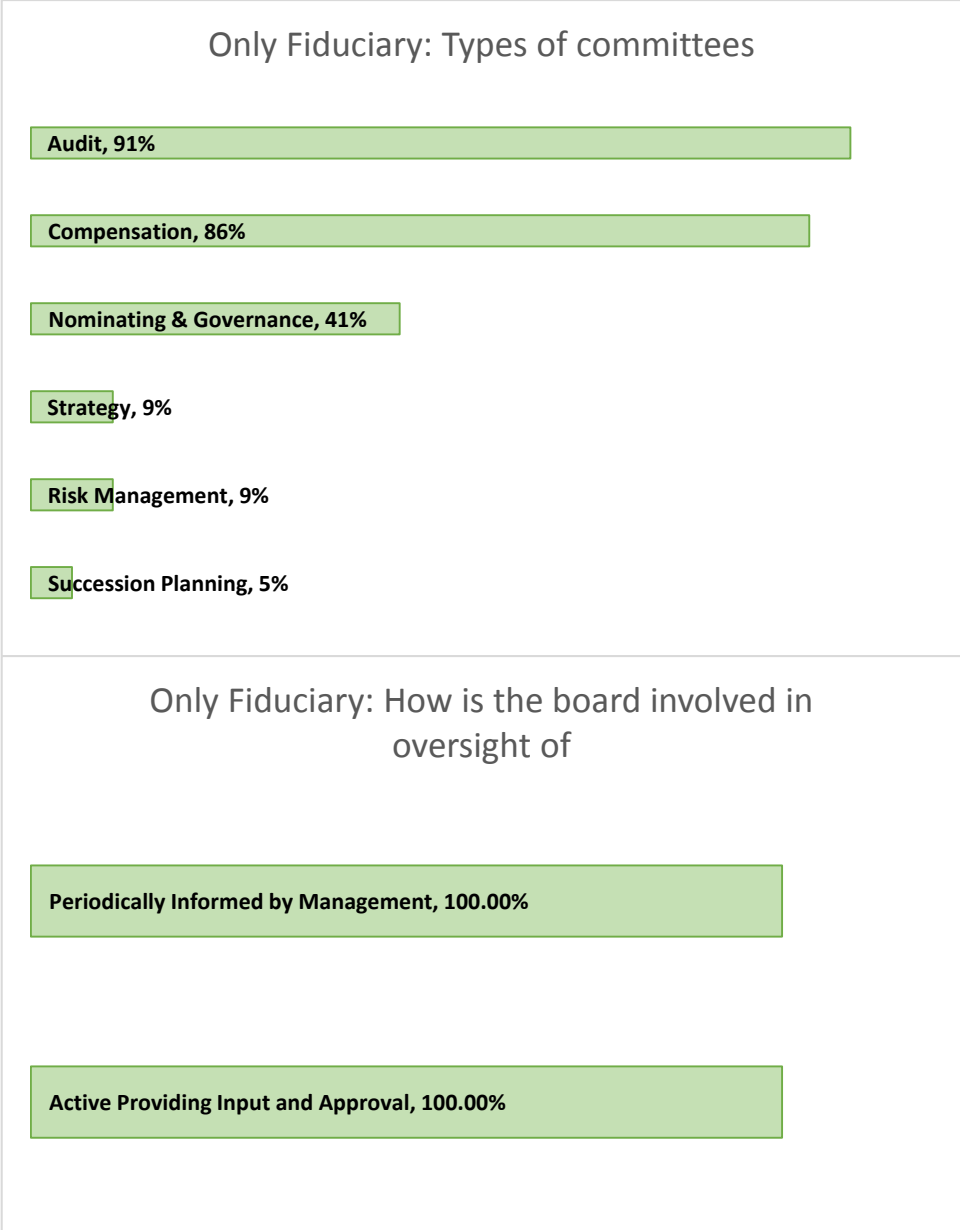
A small portion of firms started with advisory boards before having a fiduciary board.



Half of the fiduciary boards are well organized: they designate members to specific committees.



Audit and compensation committees are the most prevalent.

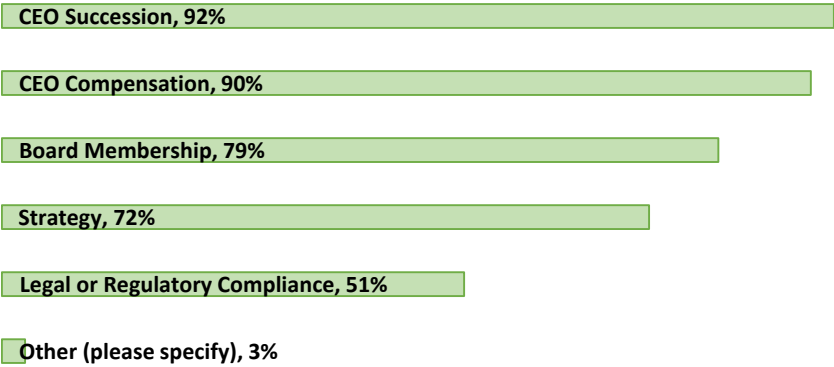


All fiduciary boards provide active input and approval to CEOs.



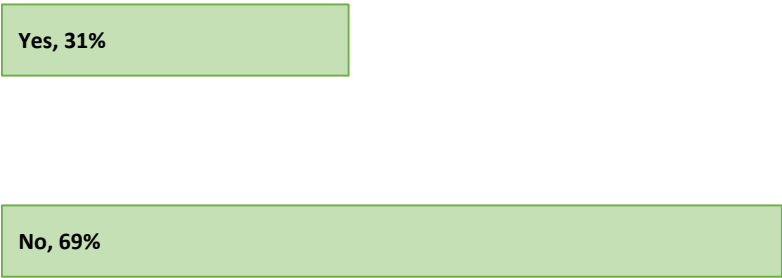
Nearly all of them have the power to make CEO succession and CEO compensation decisions.

Only Fiduciary: For which areas does the board have decision-making power?



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

Only Fiduciary: As the CEO, do you have sufficient ownership to appoint directors?

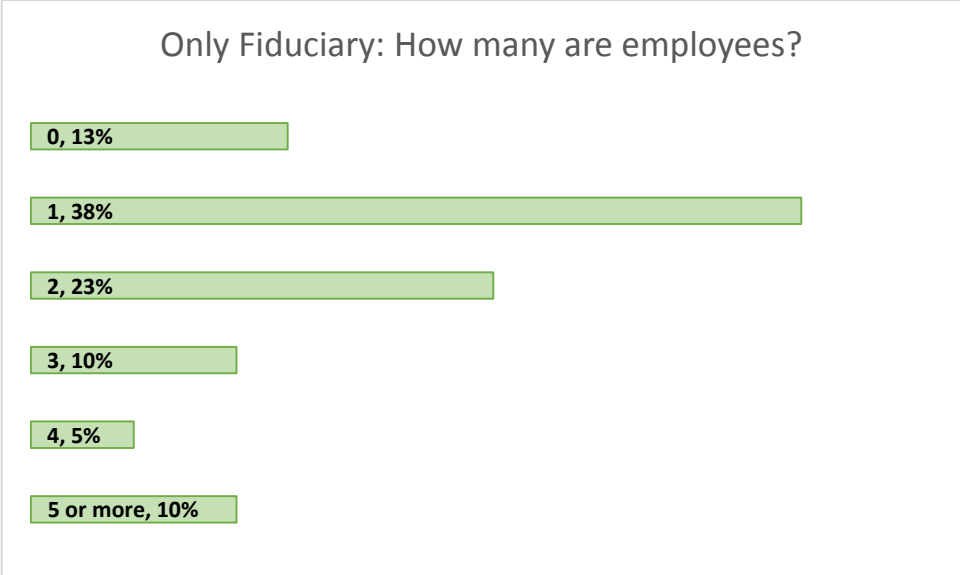


Nearly 70% of firms have 4 to 7 members.

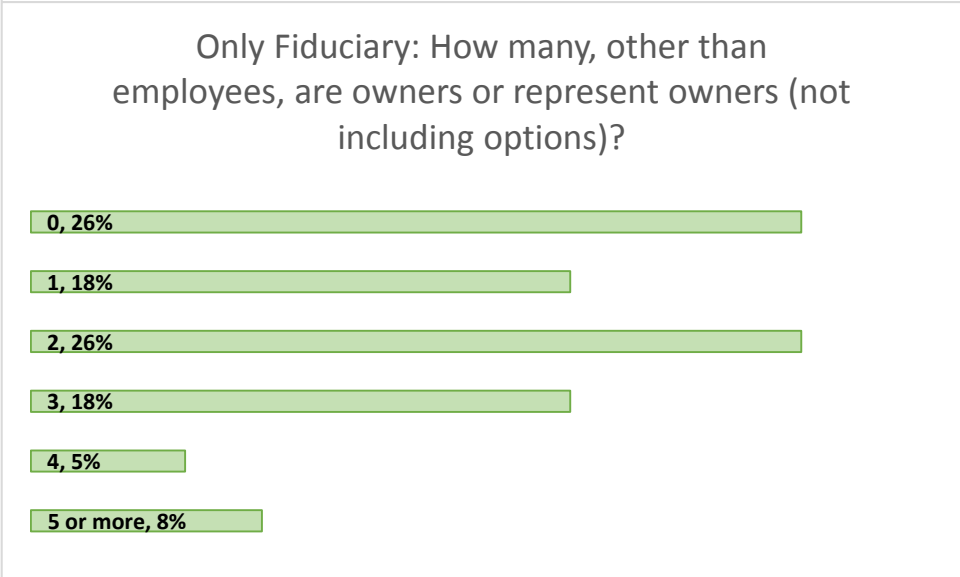
Only Fiduciary: How many total directors do you have?



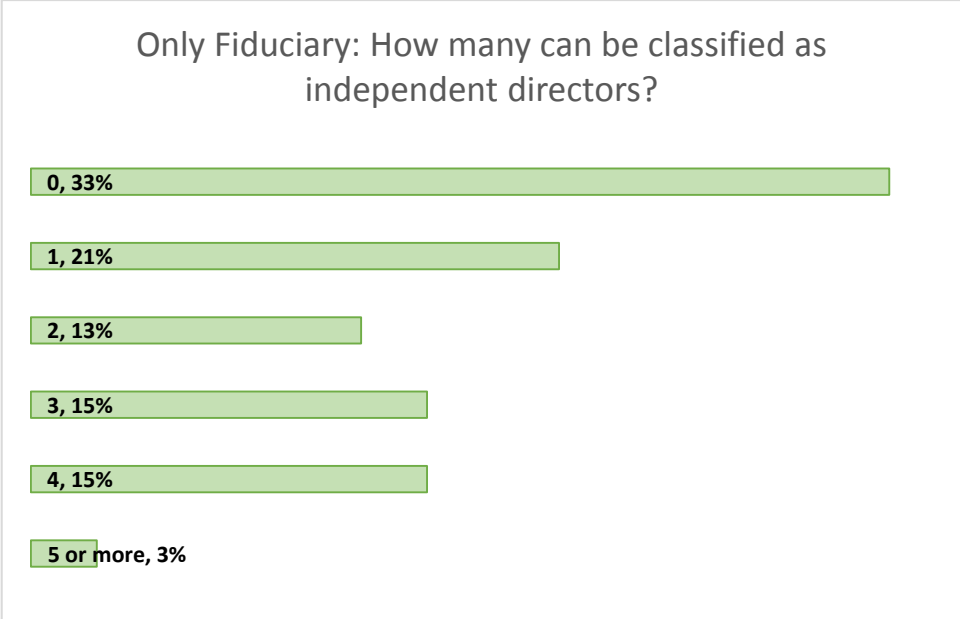
There is wide variation in the number of employees on fiduciary boards.



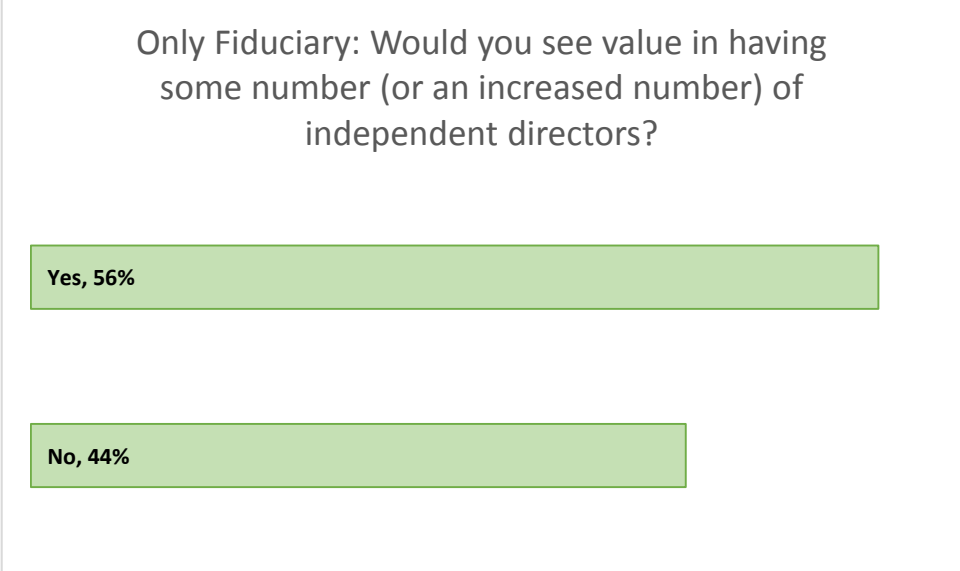
Similarly, there is wide variation in the number of firm owners on fiduciary boards.



One-third of firms have no independent directors on the board.

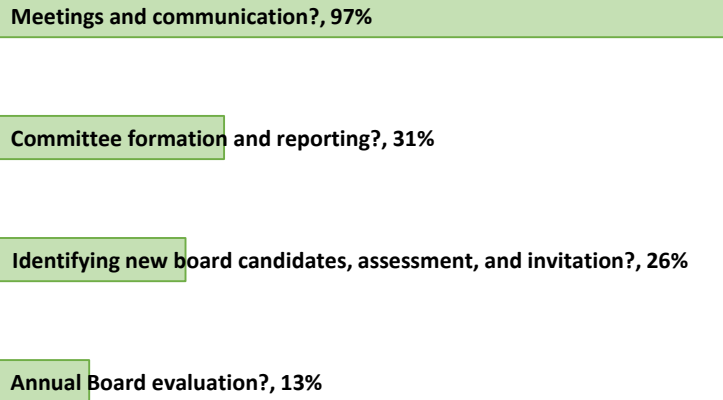


56% of respondents desire an increase in board independence.



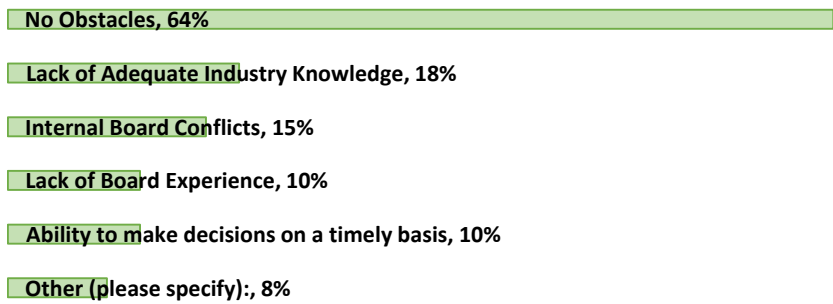
While formal processes exist for meetings and communication, there is lack of formal processes for other roles.

### Only Fiduciary: Do you have a formal process, with actions and responsibilities, for?



64% of respondents state that they face no obstacles.

### Only Fiduciary: What obstacles exist in working with the board?

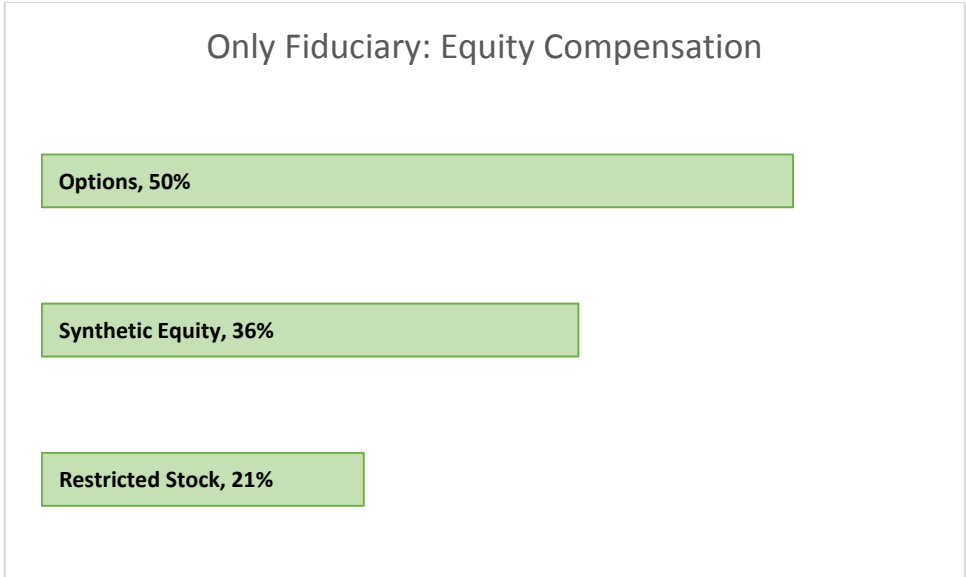


A majority of firms have annual fees for board meetings.

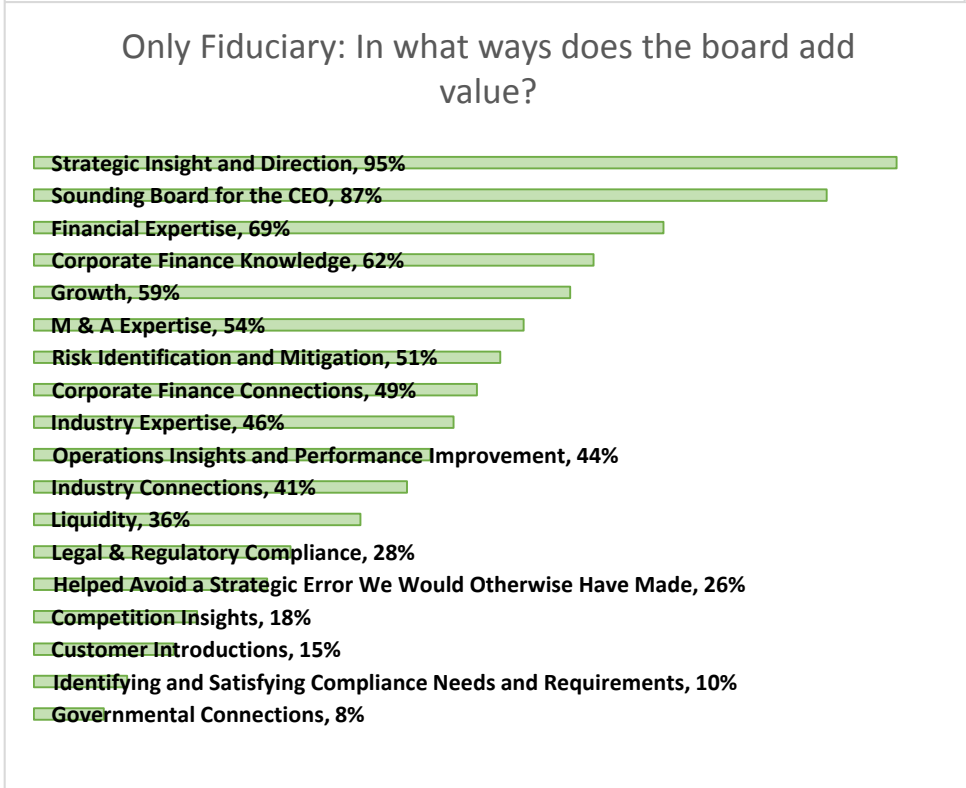
### Only Fiduciary: Cash Compensation



Half of firms provide stock options to board members.



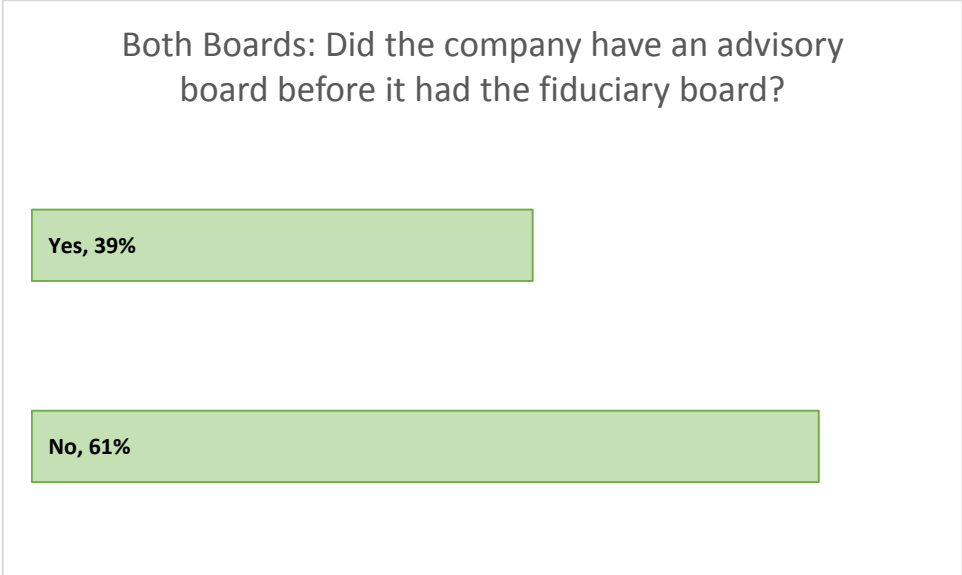
Boards add value primarily with corporate strategy and financial expertise.



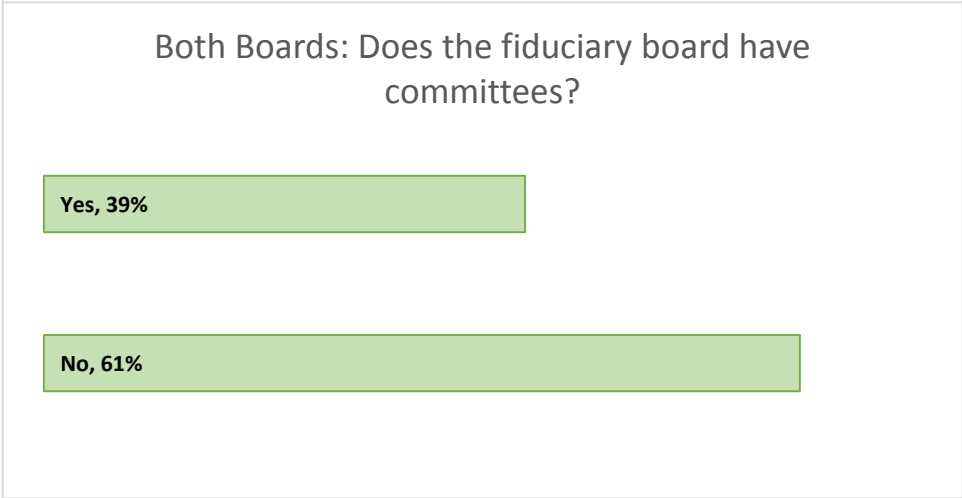
# 5. RESPONDENTS WITH BOTH ADVISORY AND FIDUCIARY BOARDS

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Fiduciary boards are typically added before advisory boards.

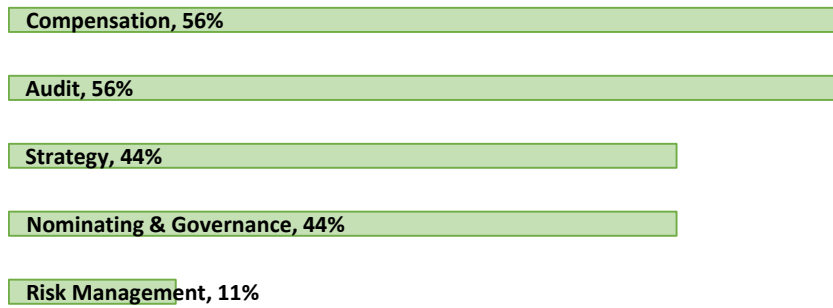


Over half of the fiduciary boards designate members to specific committees.



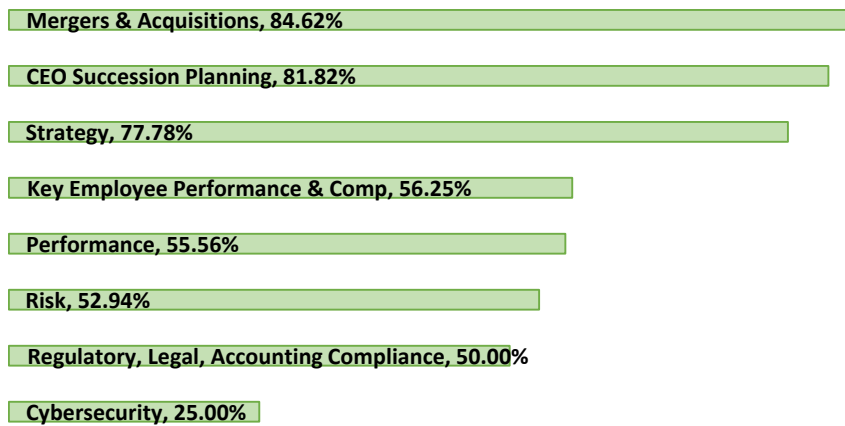
Risk management committees are formed less frequently than the others (compensation, audit, strategy, and nominating & governance).

### Both Boards: Types of committees



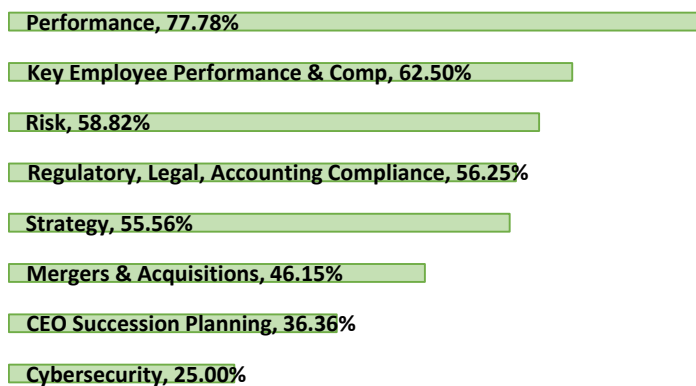
When boards play a more active role in advising / monitoring management, their key responsibilities are to provide input re: mergers and acquisitions, CEO succession planning, and corporate strategy.

### Both Boards: Active Providing Input and Approval



When boards play a less active role in advising / monitoring management, their key responsibility is to provide oversight re: corporate performance.

### Both Boards: Periodically Informed by Management

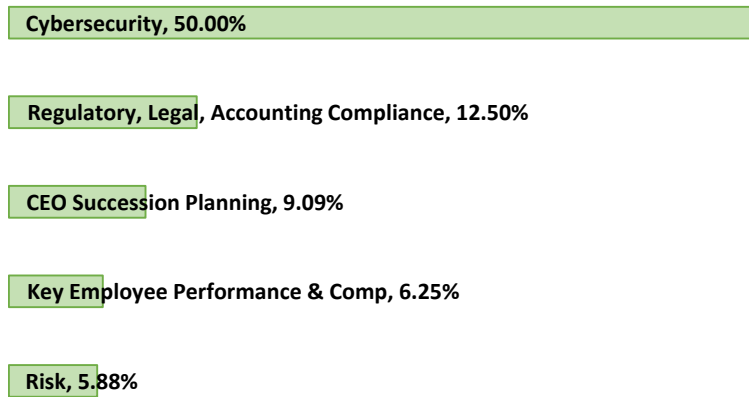


50% of the respondents state that neither their advisory board nor fiduciary board provide input regarding cybersecurity issues.

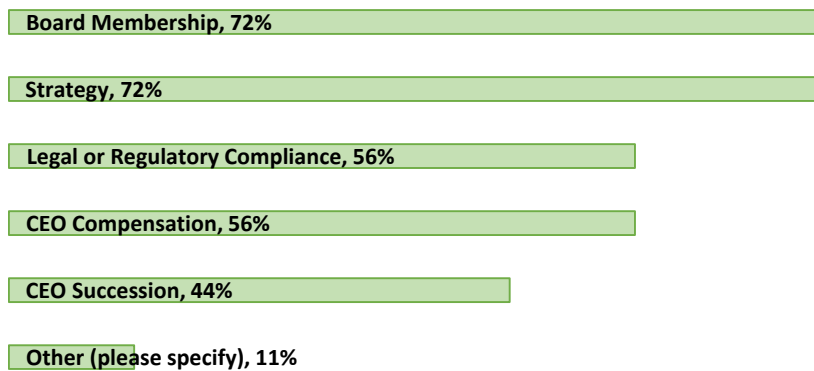
Although CEO succession planning is an important function of fiduciary boards (see earlier Qs), only 44% of boards have actual decision-making power over CEO succession.

Among firms with both types of boards, the CEO often has sufficient ownership stake in the company to appoint directors.

### Both Boards: Board is Not Involved



### Both Boards: For which areas does the fiduciary board have decision-making power?

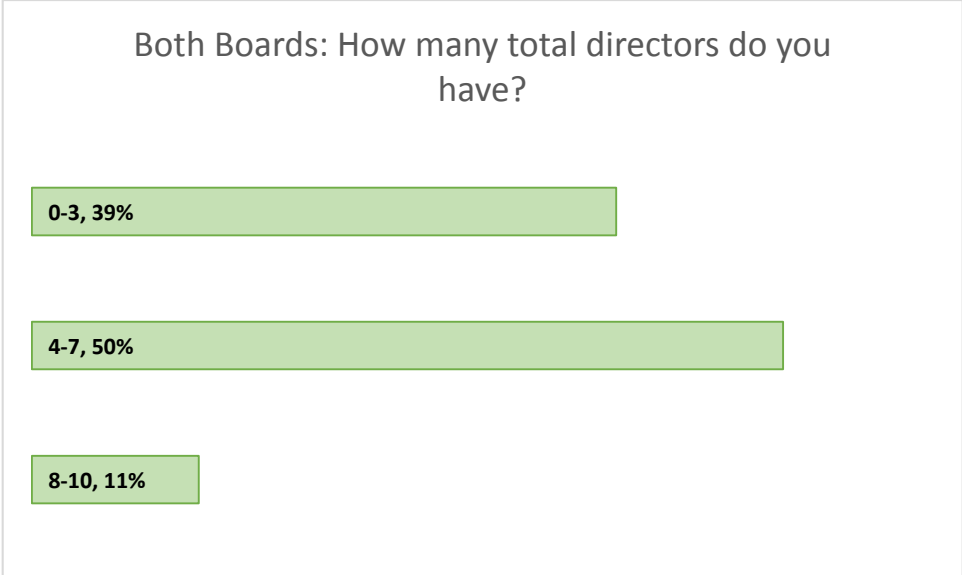


### Both Boards: As the CEO, do you have sufficient ownership to appoint directors?

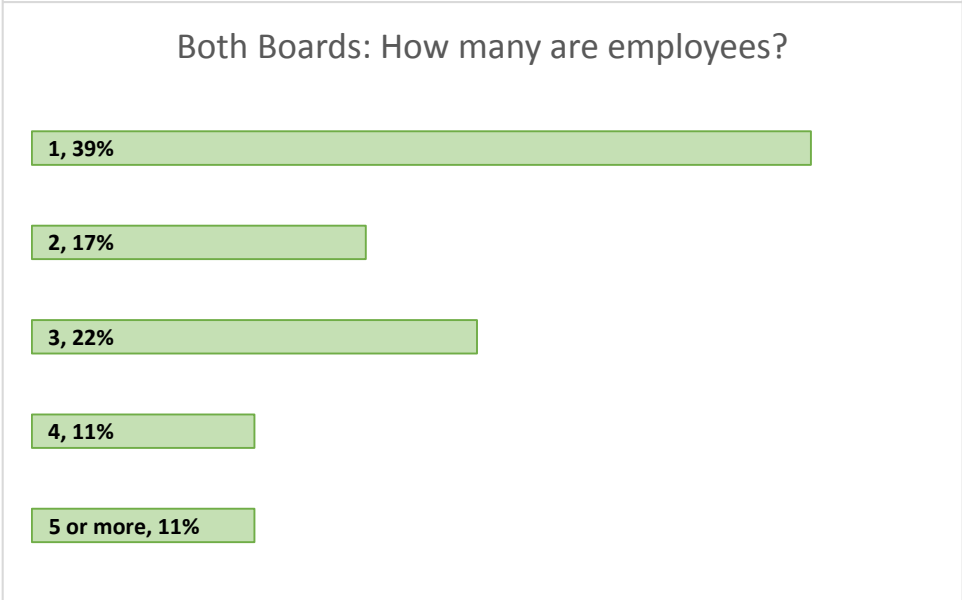




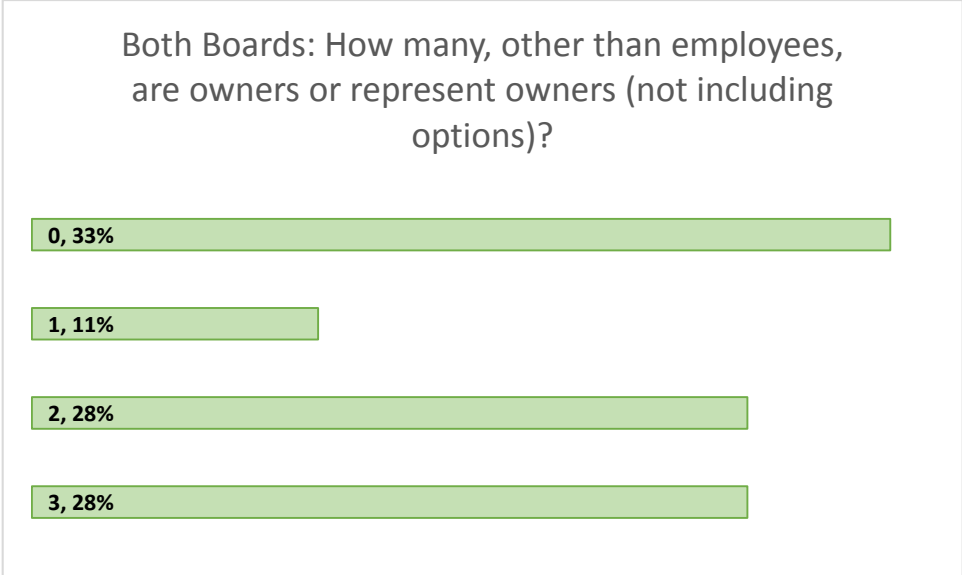
Average board membership is 4-7 people.



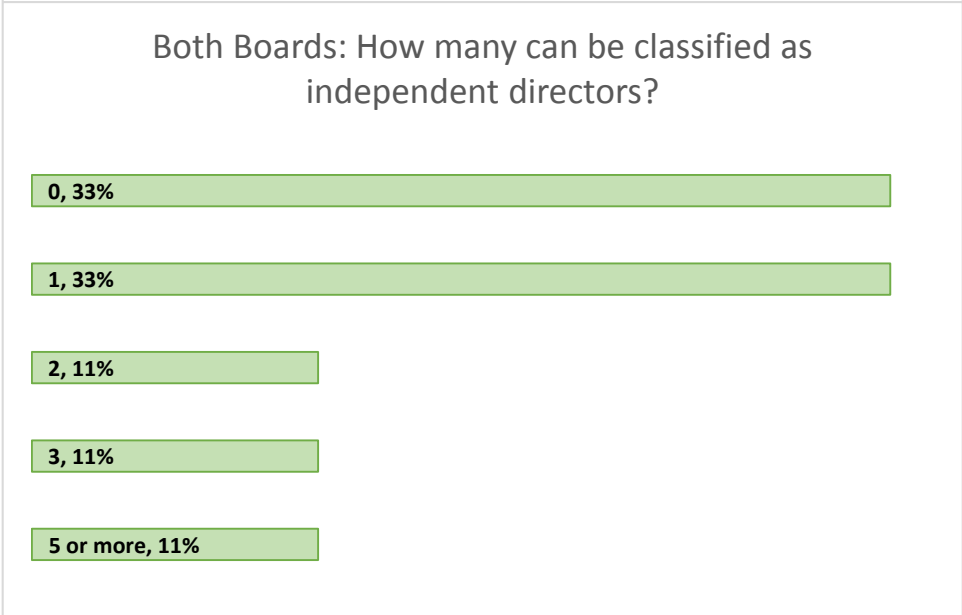
There is wide variation in the number of fiduciary and/or advisory board members that are also company employees.



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.

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

Yes, 61%

No, 39%

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

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%

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: 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%

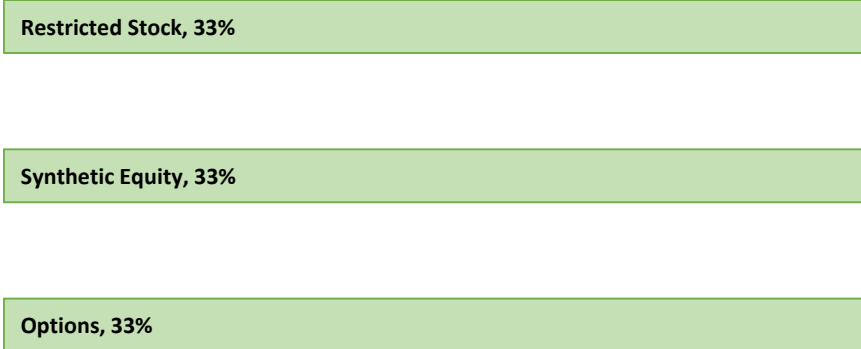
Other (please specify), 11%

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.

### Both Boards: Equity Compensation



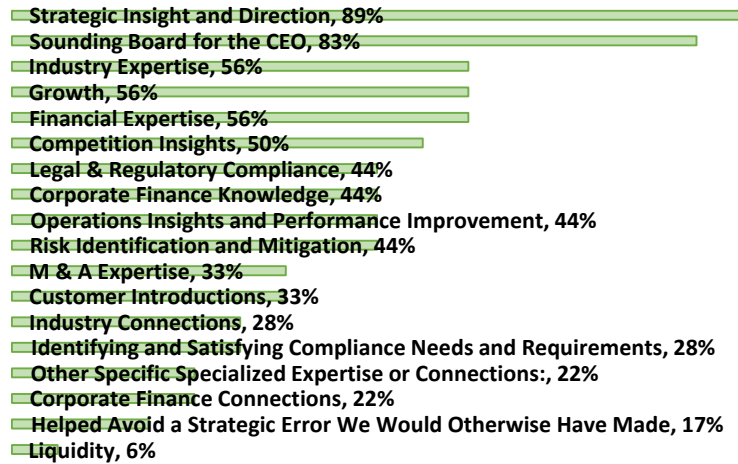
Annual cash compensation and per meeting cash allowances are used with equal frequency.

### Both Boards: Cash Compensation



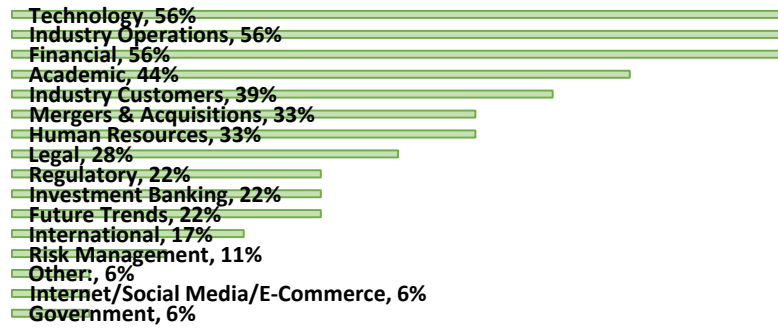
Fiduciary boards add the most value through their ability to provide strategic insight and direction for the firm and its CEO.

### Both Boards: In what ways does the fiduciary board add value?



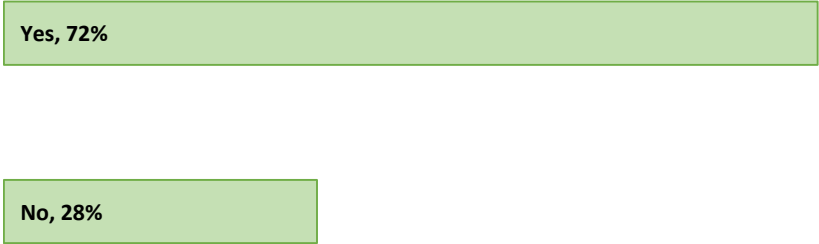
Only 22% of advisory boards have an expert on future trends and only 11% have an expert on risk management.

### Both Boards: What areas of expertise are represented on the advisory board?



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.

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

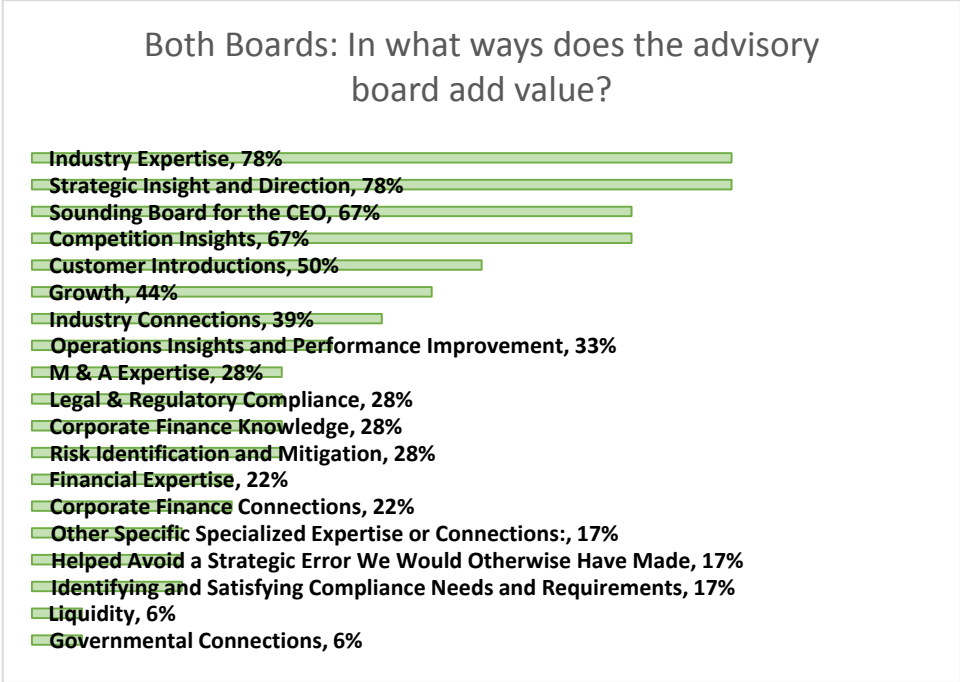


Only half of the respondents state that their advisory board members meet with their fiduciary board members.

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



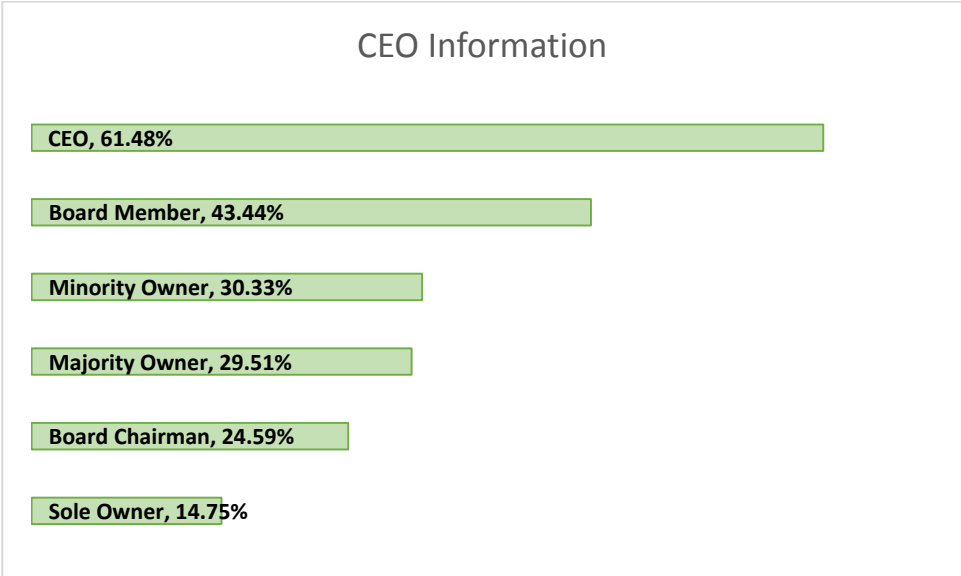
Relative to fiduciary boards, advisory boards are more valuable in terms of industry expertise, competition insights, and customer introductions.



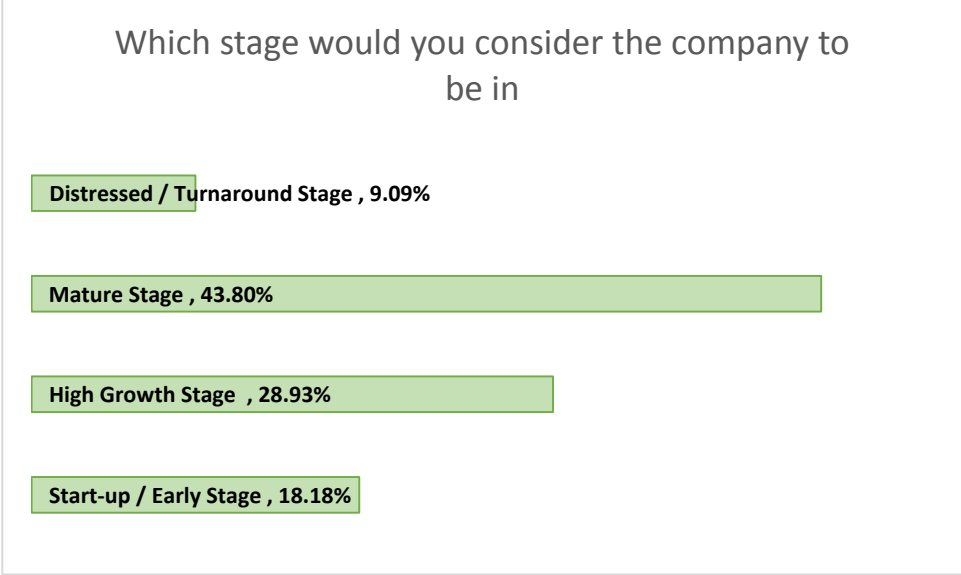
6. ADDITIONAL QUESTIONS (ALL RESPONDENTS)

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The majority of respondents are the CEO of their respective company.



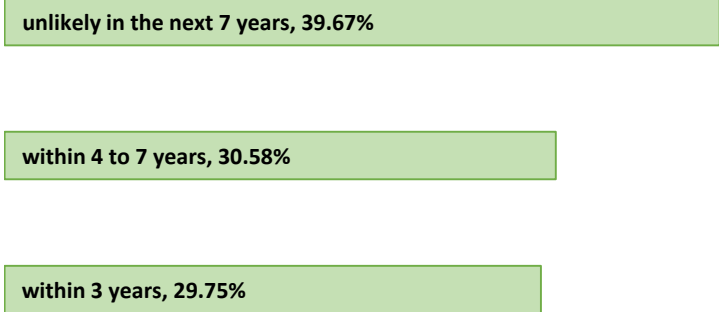
Most of the private company respondents are in either the mature or high growth stages of development.





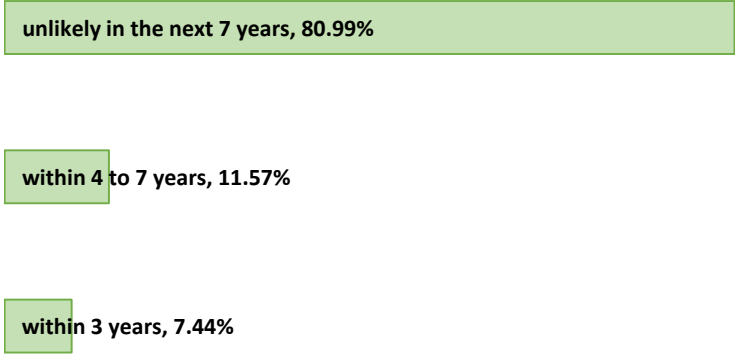
Sale of the majority interest stake is unlikely in the near future.

### Do you have a high potential for the sale of a majority interest in the Company?



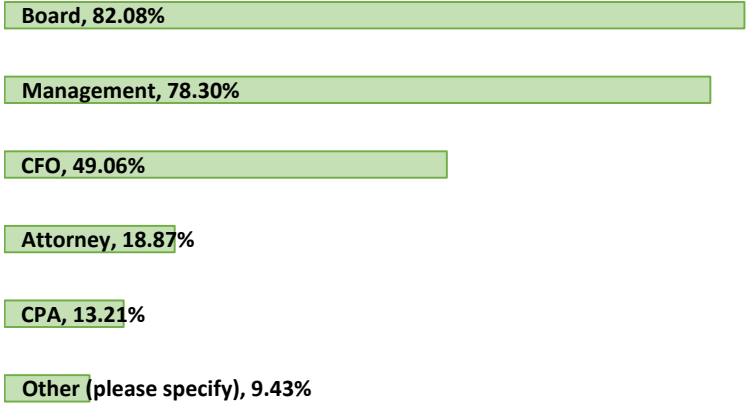
IPOs are unlikely in the near future.

### Do you have a high potential of an IPO?



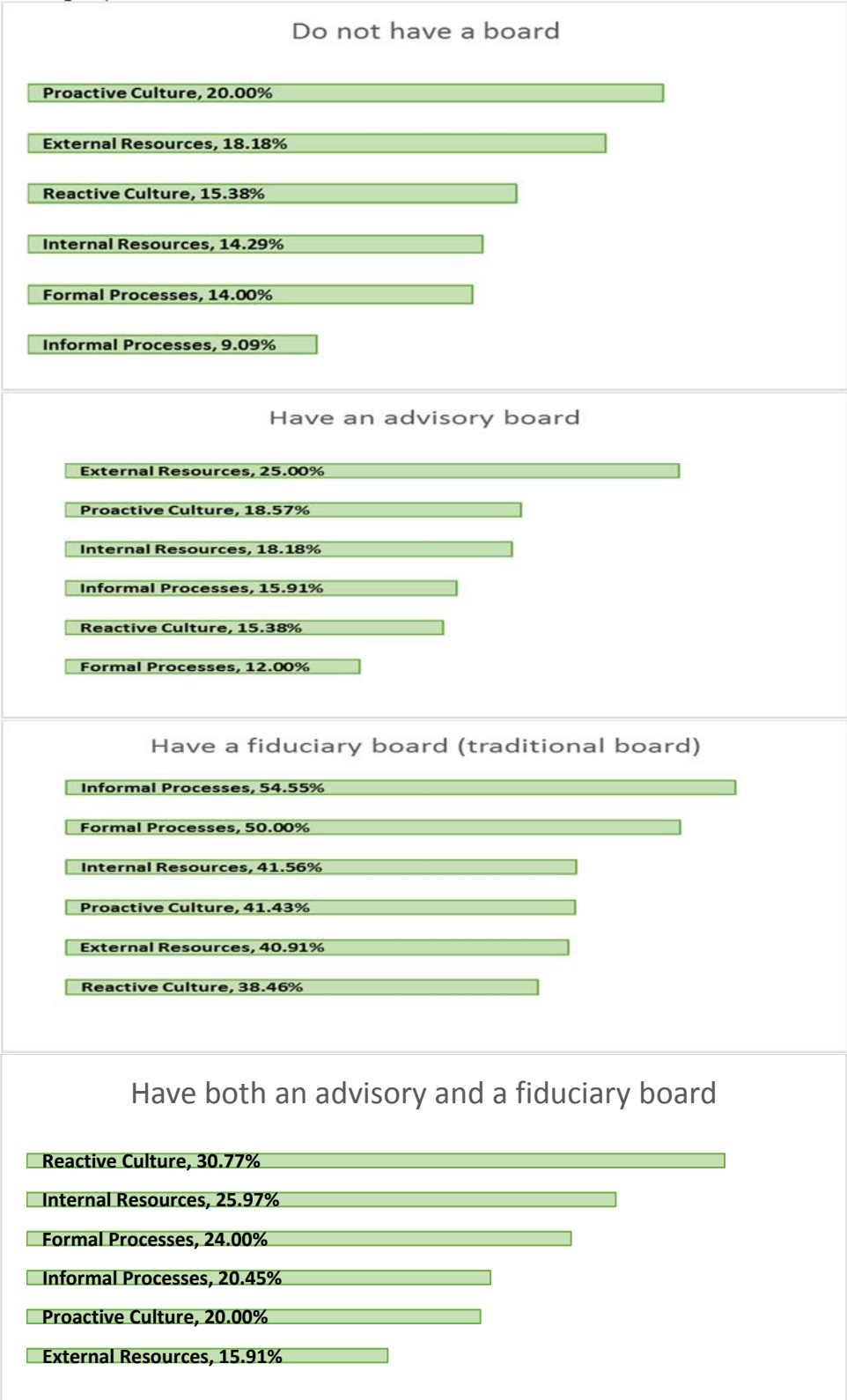
82% of the respondents have a fiduciary board, an advisory board, or both (see Q1); in line with that, the same percentage of respondents state that the board is responsible for governance.

### Who is responsible for governance?



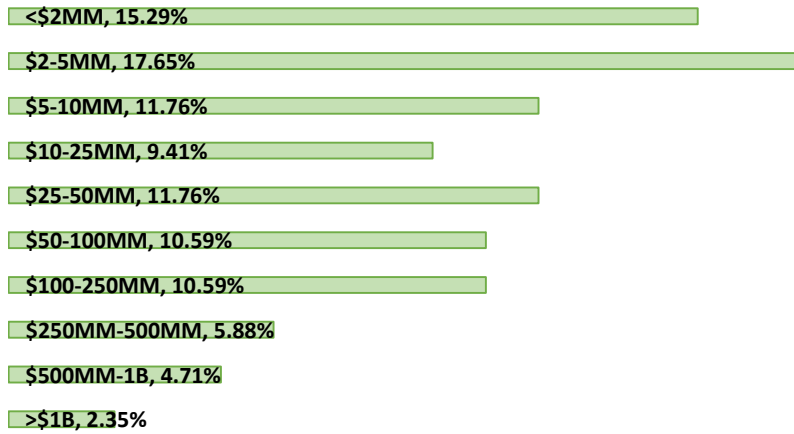
In what way does the company oversee:

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).

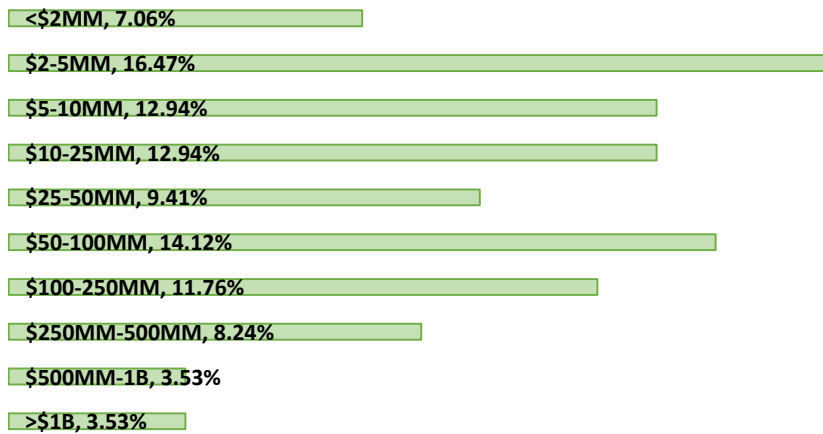


There is a wide variation in revenue and revenue growth among our respondent firms.

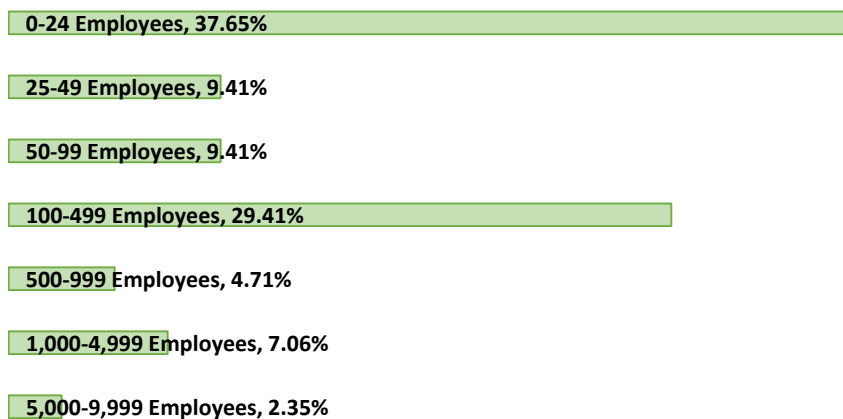
### 2015 Revenue



### Expected revenue in 2018

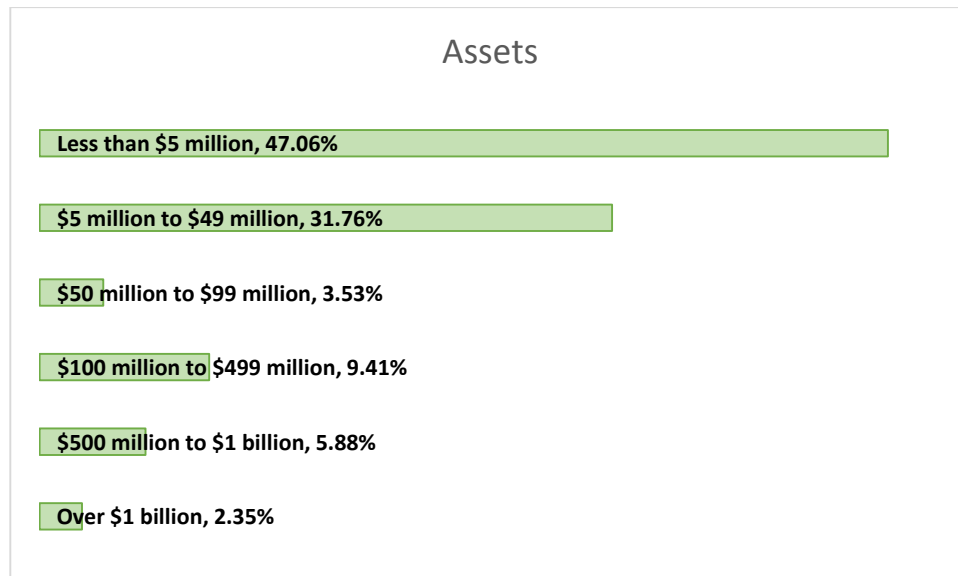


### Employees

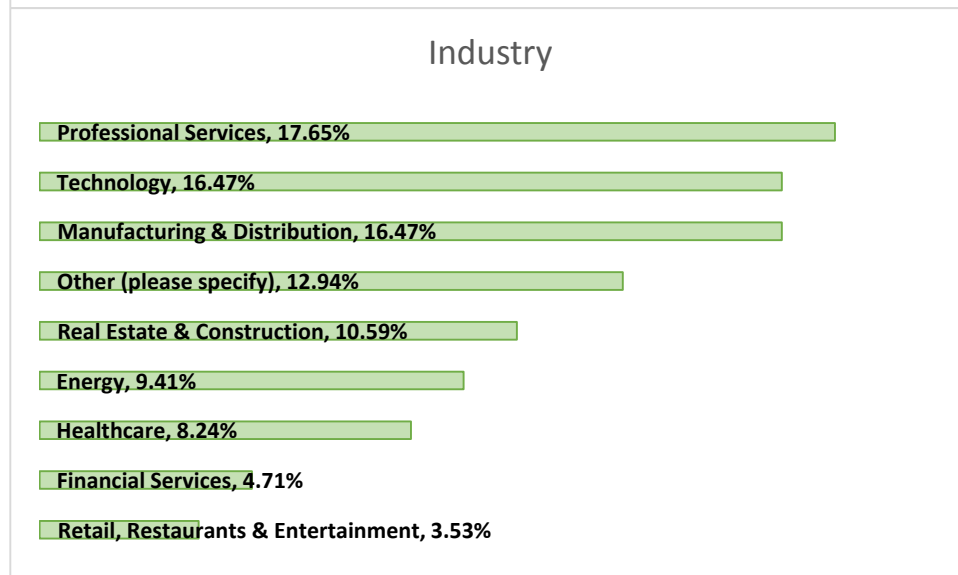


56.5% of respondent firms employ between 0 and 99 employees.

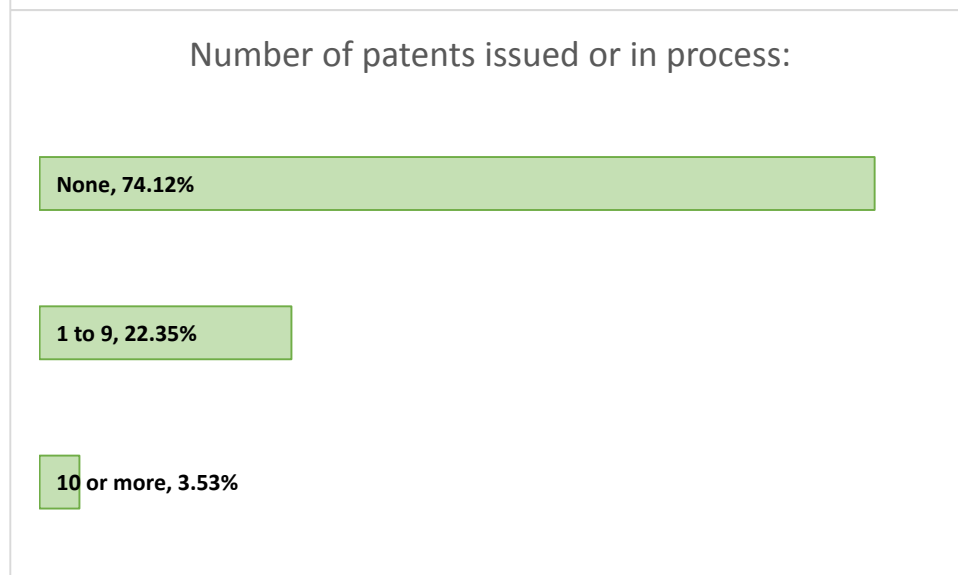
There is wide variation in size; roughly 78% of the firms have less than \$50M in assets.



Firms are widely distributed across industry/sectors.

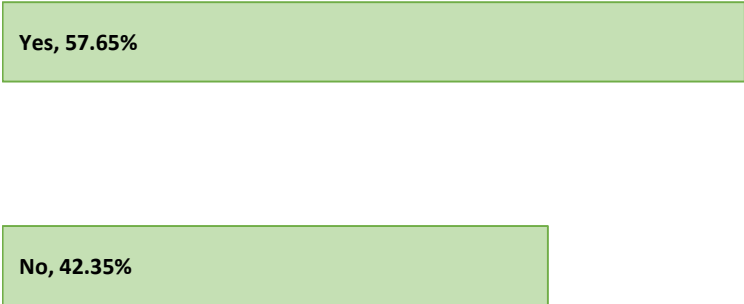


Very few of the firms surveyed have patents.



The respondent firms serve an international clientele base.

### Does your company serve international clients?



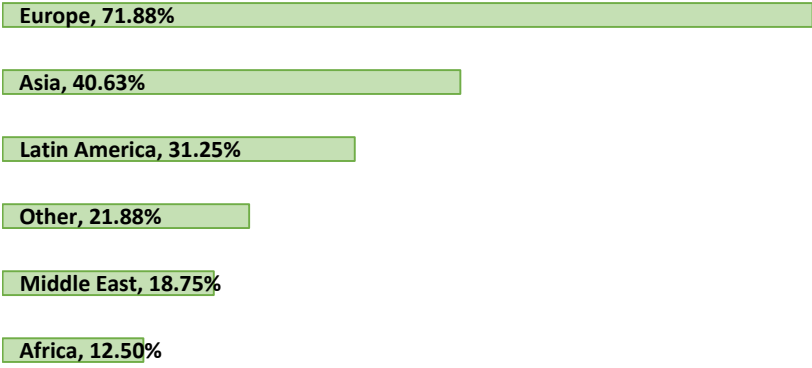
65% of the respondent firms sell to international customers, but do not otherwise have international operations or facilities.

### Global Presence: Sales Only

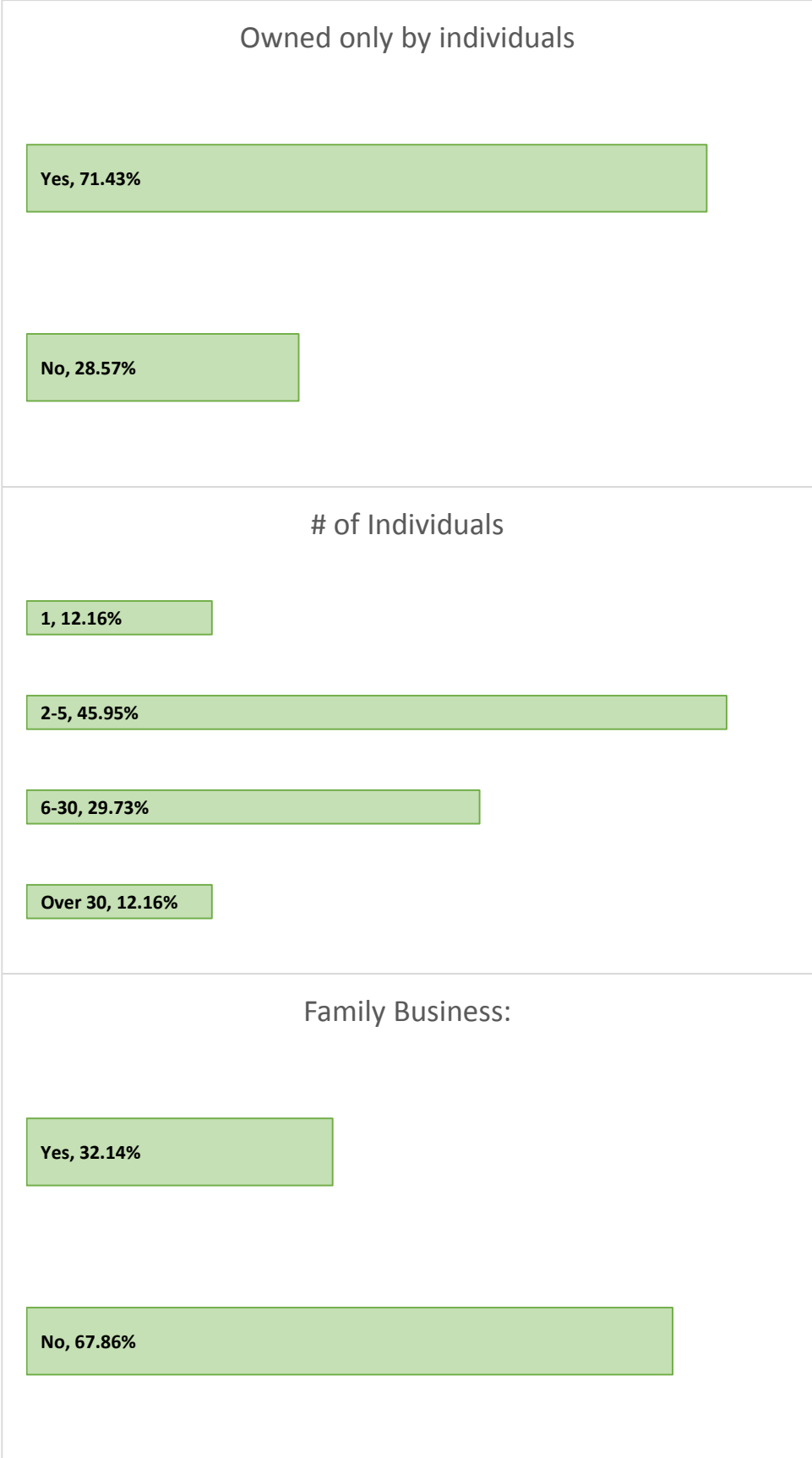


If the respondent operates in a foreign country (other than the USA), Europe and Asia are the most common.

### Global Presence: International In-Country Operations

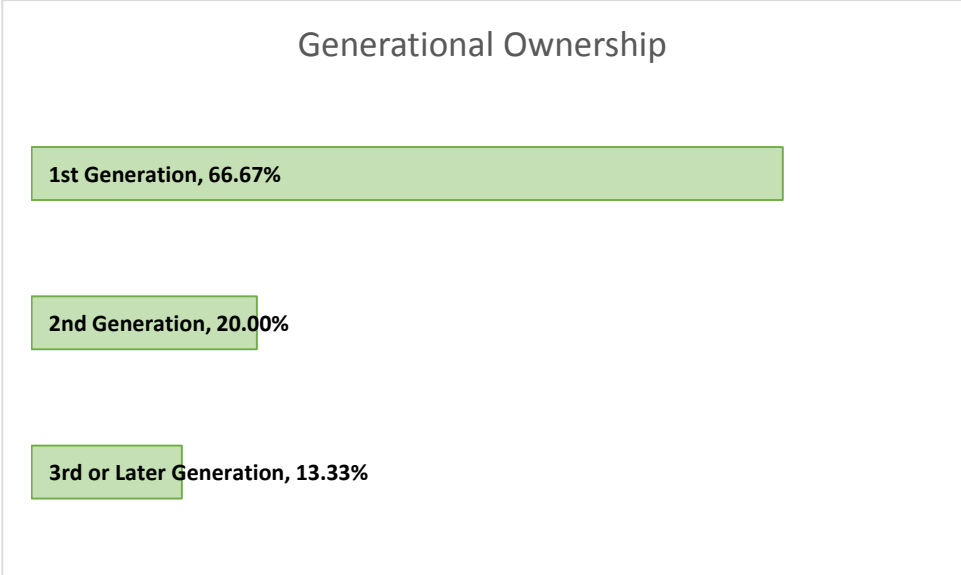


Most of the respondent firms are owned, on average, by 2-5 individuals.

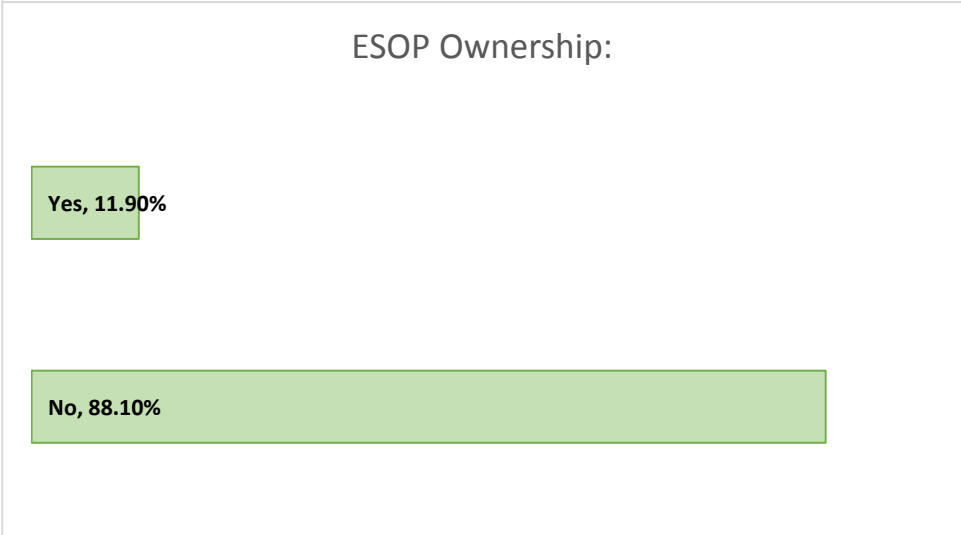


Only 32% of the respondent firms are family-owned.

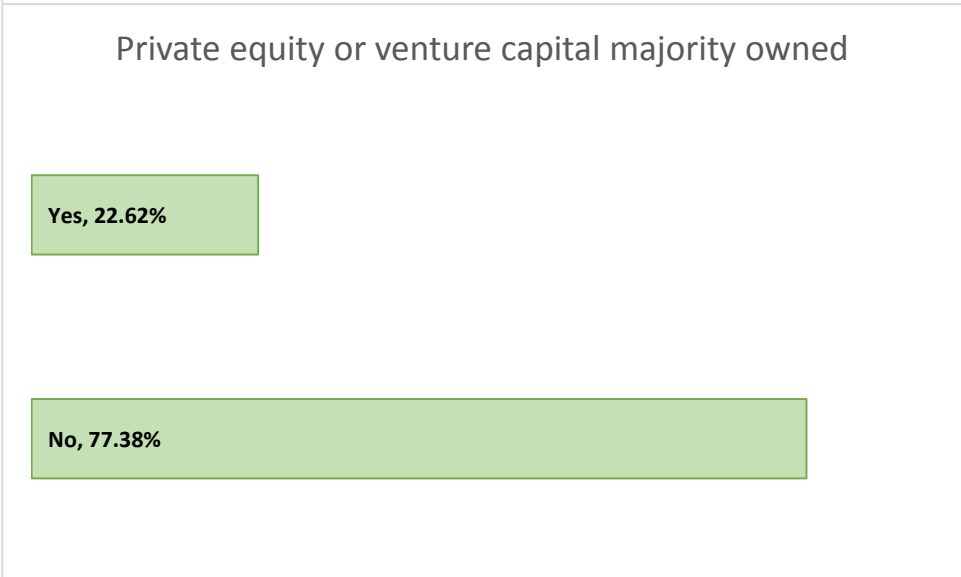
Most firms are owned by the first generation of owners.



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



22% have majority ownership by private equity or venture capitalists.



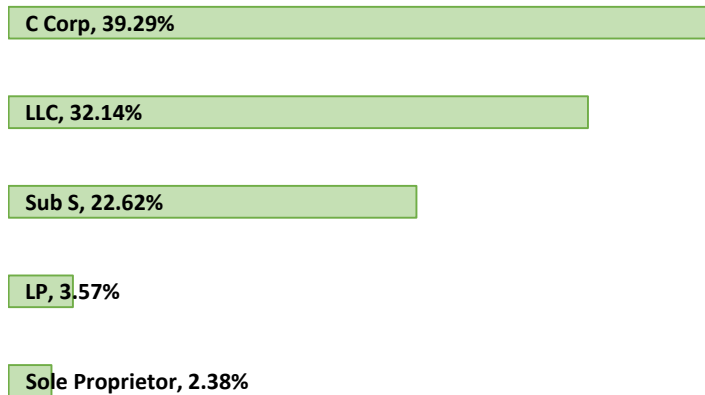
Very few are minority owned by private equity or venture capitalists.

### Private equity or venture capital minority owned



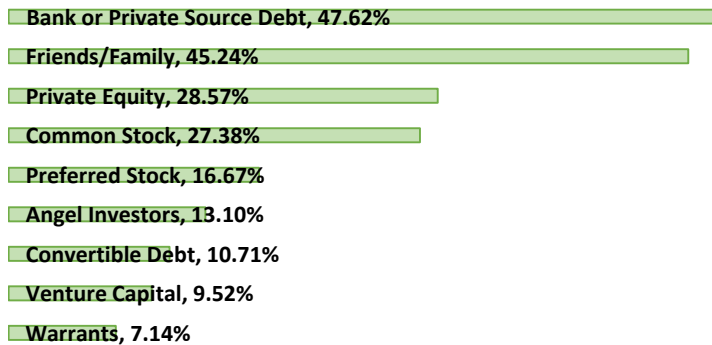
There is variation among our sample firms in terms of entity type.

### Type of Entity



Half of the firms have been funded at some point by bank or private sources of debt.

### Type of funding over history of company





In 77% of firms the CEO owns a majority of voting shares in the company.

Does any one person or entity, other than yourself, control over 50% of the voting shares of your company?

**Yes, 22.62%**

**No, 77.38%**

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

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?

**Yes, 51.22%**

**No, 48.78%**