

Employee Ownership Report

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New Research on Corporate Governance Practices

PART I: BOARD COMPOSITION AND COMMITTEES

This summer, the NCEO conducted a 43-question survey on how ESOP companies are approaching key corporate governance issues, including board composition, director terms, director and trustee compensation, the characteristics of the ESOP trustee, and the role of ESOP participants in governance. The survey is the largest ever conducted on ESOP corporate governance practices, with 501 valid responses from a diverse sample of ESOP companies, as well as 27 valid responses from non-ESOP companies for comparison.

The results show differences between the governance practices at companies based on size, industry, region, percent ESOP, and other demographic categories. This article, which is the first of two that will examine the survey results, focuses on board composition and committees. Specifically, it addresses how small and large ESOP companies structure their boards in terms of the number of directors and the percentage of directors that are independent, as well as the types of committees the board maintains.

Number of Directors

The number of directors on the board is a fundamental issue in corporate governance. The table below provides statistics on the number of directors for ESOP companies based on size, as well as a small sample of non-ESOP companies. Small is defined as revenues of \$50 million or less; large is defined as greater than that.

On average, ESOP companies have between five and six directors, with small ESOP companies averaging 4.9 directors and large ESOP companies 6.1 directors.

NUMBER OF DIRECTORS

	SMALL ESOP (N=297)	LARGE ESOP (N=198)	ALL ESOP (N=501)	NON-ESOP (N=27)
Average	4.9	6.1	5.5	6.1
3 or less	29%	11%	22%	15%
4 – 7	56%	65%	60%	59%
8 or more	15%	24%	18%	26%

Twenty-nine percent of small ESOP companies have three or fewer directors, compared to only 11% of large ESOP companies. On the other side of the spectrum, only 15% of small ESOP companies have nine or more directors, compared to 24% of large ESOP companies.

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Three Lessons of Ownership

By Tamara Carleton, *Innovation Leadership Board LLC*

Can your company truly build and sustain that early founding feeling, in which everyone continues to feel vested as the scale of the organization changes?

In a study funded by the Foundation for Enterprise Development, I focused on government contractor Science Applications International Corporation, known as SAIC, from its founding in 1969 to its IPO in 2006, providing 37 years of continuous and comparable data. SAIC's founder, J. Robert Beyster, spoke candidly about his early vision, and several employees who worked at SAIC during its formative years or played a significant role in the formation of the company's ownership culture shared their experiences with me.

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APPLY FOR THE 2013 WORKING BETTER AWARD

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