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Top 5 Exec Comp Issues for IPO Companies

There are few events as celebratory and significant, or that can cause as much change in a company's approach to compensation, as an initial public offering (IPO). An IPO presents challenges in transforming legacy compensation plans that may not be appropriate for public companies. It also offers opportunities to introduce and reshape plans that align executive interests with those of the company's investors.

All companies should address five major executive compensation issues as they prepare and carry out an IPO. While not every company will adopt all new policies and plans before the IPO, it's important for companies to review each of these issues up front and determine if changes are warranted.

1. Enhanced corporate governance.

An IPO brings not just new owners, but new oversight from regulators, advisers, media and other stakeholders. In recent years, the introduction of say-on-pay votes has given investors the opportunity to provide direct feedback on the company's executive pay plans. Newly public companies should take a holistic look at executive pay packages and ensure that they are aligned with investor interests and market expectations.

2. New executive compensation disclosures.

Details of compensation packages paid to executive officers and directors are part of required IPO disclosures. These disclosures take time and coordination with many departments (including accounting, benefits, payroll and legal) to assemble and report, but also present an opportunity to provide context for a compensation committee's executive pay decisions.

3. New hires and promotions.

Management of a public company is an enhanced challenge for many departments, especially in finance and legal where going public requires new roles and functions. Companies need to hire department leaders who can handle these challenges, and compensation for these roles should reflect the enhanced responsibilities.

4. New equity plans.

An IPO offers companies a new opportunity to provide restricted shares, stock options or other equity plans to key employees and directors. With the company's shares now publicly traded, participants in these plans can see the value of these awards. Most IPO companies adopt a new equity plan that allows them to make equity grants to employees for several years.

5.New directors and director compensation packages.

Pre-IPO, most company directors are likely to be "insiders" — that is, employees or investor representatives. Post-IPO, the board likely will include more independent directors with different roles and responsibilities. These new directors also are typically paid differently than insiders. The company needs to determine the appropriate pay packages for them.

A Timely Opportunity

An IPO is a double opportunity. First, it presents an opportunity for newly public companies to access capital and grow in a way that may not have been previously possible. Additionally, an IPO presents an opportunity to modernize and streamline executive compensation in a way that amplifies key stakeholder concerns such as connecting performance with pay. WS

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