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Updating Board Compensation Practices Post-IPO



Terry Newth

MANAGING DIRECTOR

Terry Newth, managing director in Pearl Meyer's Boston office and head of the firm's Life Science practice, talks about the unique considerations for director compensation after a company goes public.

Q. The transition from private ownership to a public company can be challenging, even at the board level. What changes should be made to a director compensation program to ensure a smooth evolution?

A: You want to attract qualified, experienced public company directors to join the board alongside those who may have been with the company since its start-up days. These distinct cohorts will have very different expectations with respect to compensation. For example, the pre-IPO board may only have received equity, usually in the form of stock options, while public company directors are accustomed to a mix of cash and equity. Compensation as a public company also becomes more role-based, with committee chairs and members receiving additional cash retainers for their service.

For those who were with the board before the public offering, communication about program changes and the rationale is important, as is ensuring there is internal equity from equity grants for legacy directors and newly elected directors. The last thing you want is for newly appointed directors at or just before the IPO to have more equity (value) than other non-investor directors that have served for a longer period of time.

Ultimately, the goal is to bring together the best of both worlds and create a board that works well together in its new phase. A board that is set up for success can guide a newly public company to success.

Q. You mentioned public company expectations. Post-IPO, how do you ensure the director compensation program will

pass scrutiny?

A: While every company has some latitude to create programs that meet their specific needs, there are fairly specific norms governing public company director pay. What is key is a reasonable balance of cash and equity compensation in a mix that favors equity and facilitates long-term share ownership that helps align director interests to those of the new shareholders.

About the Author

Terry leads the Life Sciences practice and advises companies from venture-backed to multinational on executive compensation strategy, incentive design, governance/disclosure, and transaction-related arrangements.

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