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Executive Compensation Checklist for Pre-IPO Companies



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Ideally, a company should start implementing a well-reasoned compensation process upon its start-up. However, our experience suggests that privately held businesses do not always have compensation processes in place to the same extent as public companies. If an IPO event is on the horizon for your company, you likely know that it typically takes 90 to 120 days (and sometimes longer in recent years) to complete. However, preparations leading up to the IPO can start two or more years out. As you map out those long-range preparations, be sure to include your executive compensation plans, processes, and associated governance considerations.

We recommend beginning the pre-IPO compensation preparations at least six to 12 months in advance of the planned IPO, but ideally 18 months or more in advance if time allows. Key considerations fall into the following ten broad categories:

1. Team Composition

A successful IPO process begins with assembling the right internal team. This typically includes key leaders across human resources, finance, accounting, legal, and IT, all working in coordination with the CEO. In many cases, companies also benefit from bringing in outside legal counsel and/or third-party advisors. If the company is private equity-backed and those investors will retain a stake post-IPO, it's crucial to involve them in all key management team and compensation-related decisions.

2. Compensation Philosophy

Developing a well-defined compensation philosophy that is purposefully aligned with the company's business strategy and IPO goals is essential. The balancing act here is to develop a philosophy that supports the transition from private to public while facilitating future growth post-IPO.

This philosophy should articulate the overarching objectives of the compensation program and define the balance between fixed and variable pay, the level of pay-for-performance

alignment, the role and structure of equity, and the use of benefits and perquisites. Companies should also consider how their pay mix may evolve post-IPO and determine the right talent markets and competitiveness levels to target as they transition to public ownership.

3. Peer Group Development

Companies preparing for an IPO should develop two distinct peer groups to guide compensation benchmarking.

The first, the pre-IPO peer group, should consist of companies that recently went public, are of similar size in terms of valuation, and in similar industry sectors. This will provide insights into IPO-specific compensation practices such as equity incentive plan provisions (e.g., initial share pool, evergreen refresh, other key legal terms and conditions), employee stock purchase plan provisions, equity ownership levels, and equity grant practices at or around the time of the IPO.

The second, the industry peer group, should be composed of established public companies in similar industries and of similar scale. This will inform total compensation benchmarking, market norms on incentive (short- and long-term) design, expected annual share usage, and stock-based compensation expense.

4. Market Pay Levels

A thorough review of all total reward elements—base salary, annual incentives, long-term incentives, benefits, and perquisites—should be conducted. Companies should assess their desired mix among these components and evaluate how current practices compare with the market. Gaps in competitiveness should be identified, and go-forward structures should be developed to align with the company's positioning strategy.

5. Annual Incentive Plan Design

This is the time to re-evaluate who is eligible for the annual (or short-term) incentive plan and how participation is structured. Companies should carefully assess the performance metrics used—such as earnings per share, operating income, revenue, or EBITDA—and refine the plan's risk/reward profile and incentive funding curve. Attention should be given to the relative weightings of company-wide, individual, and discretionary performance measures. It is not uncommon to consider a mix of financial and strategic metrics given the organization is in the midst of a significant transformation.

A formal plan document should be drafted, with key provisions informed by a market analysis of the industry peer group and broader market practices for incentive plan design

provided in survey data.

6. Long-Term Incentive Plan Design

Before the IPO, companies must finalize and gain approval for their equity incentive plans and employee stock purchase plans. This includes drafting the relevant documents and obtaining necessary shareholder approvals. A detailed analysis of current and future share usage is critical, especially in the context of grant guidelines, frequency, value-setting methodologies, and the types of vehicles used at each employee level. This planning should also assess existing executive shareholdings to identify potential retention issues and inform future ownership guidelines.

As noted previously, many privately held companies have an ad hoc equity grant schedule, but transitioning to a public company often entails moving to an annual grant schedule. Consider when to transition to a public company equity grant schedule—this shift may begin even before the IPO, depending on how much lead time the company has.

7. Employment Security Arrangements

Companies should assess their existing employment agreements, severance plans, and change-in-control protections, benchmarking these against peers and addressing any competitive gaps. Key contractual terms should be updated or developed as needed, and consideration should be given to market trends and avoiding shareholder advisory firm designated “problematic pay practices” (e.g., single-trigger equity vesting, excessive severance payments, excise tax gross ups, etc.).

8. Board of Directors Compensation

A large task when transitioning to a public company is creating a structured compensation plan for board members. This should be guided by practices among the industry peer group. Such a plan typically includes cash retainers and fees for board and committee service, as well as equity grants—both initial and annual—and may include stock ownership guidelines and/or retention requirements. Legal counsel should help codify the policy, and summary materials should be prepared for use in recruiting new board members.

9. Governance and Regulatory Compliance

Public companies are subject to heightened governance requirements, so it is critical to establish an independent compensation committee to ensure that compensation decisions are made by independent directors. A formal charter outlining the committee’s purpose and responsibilities should be created. Simultaneously, the company should begin drafting the SEC Form S-1, including the Compensation Discussion & Analysis (CD&A) section. All

compensation plans and agreements should be reviewed against shareholder advisory group guidelines, with necessary approvals obtained in advance of the IPO. Having a third party advisor, whether counsel or consultant, assist and/or review at this stage is very important.

10. Consider How Practices Will Evolve Over Time

Finally, companies must think beyond the IPO and consider how their practices will evolve. While Emerging Growth Companies (EGCs) benefit from relaxed disclosure rules—such as streamlined proxy disclosure requirements and not being subject to an advisory say-on-pay vote—they will eventually outgrow this status. Long-term planning should include a strategy for implementing performance-based equity programs in line with prevailing market standards and shareholder expectations. Though these programs are less common at the IPO stage, their adoption becomes increasingly important as the company matures in the public arena.

About the Author

Aalap specializes in executive compensation strategy—governance, pay-for-performance, and incentives—helping companies align business, people, and compensation strategy for effective programs.

About Pearl Meyer

Pearl Meyer is the leading advisor to boards and senior management helping organizations build, develop, and reward great leadership teams that drive long-term success. Our strategy-driven compensation and leadership consulting services act as powerful catalysts for value creation and competitive advantage by addressing the critical links between people and outcomes. Our clients stand at the forefront of their industries and range from emerging high-growth, not-for-profit, and private organizations to the Fortune 500.