Fortified for success
Building your company's risk, controls and compliance ecosystem, for the IPO and beyond

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The US IPO market is booming. In 2013, 238 new issuers raised an impressive $57 billion, and 2014 seems poised for similar or greater success. In Q1/Q2, 160 IPOs raised $32.4 billion, of which Q2's total of 89 debuts and $21.5 billion in proceeds raised represents the highest quarterly deal volume since the fourth quarter of 2007. With stock prices up, interest rates low, overall volatility down, and investors continuing to search for growth opportunities, the boom seems set to continue. The question is, is your company ready to take the plunge?

Going public is, in every sense, a transformational event, giving you access to capital markets, new avenues for financing acquisitions, the ability to pay for acquisitions using publicly traded stock, a bigger stage from which to promote your company, and many other benefits. But it's also a process that pushes a company into the glare of regulatory, investor, and analyst scrutiny. By definition, a company that goes public loses its privacy and must operate within a web of complexity and obligations crossing all levels of the organization, amplifying financial, strategic, operational, and compliance risks, and adding new layers of cost.

Getting through this thicket and into position to reap an IPO's benefits requires thorough preparation to build and scale a company's risk management controls infrastructure and compliance capabilities for its new, more heavily regulated public life. The process requires the ability to envision the company's future state and needs; the foresight to plan the compliance, risk management, and internal audit infrastructure to meet those needs; and the fiscal wisdom to provide the associated funding and resources—even as IPO preparation makes ever larger demands of your people and treasury.

From obligation to opportunity: Turning risk management and compliance into a strategic asset

The word "compliance" has the ring of obligation. But for public companies, obligation is the name of the game.

Whether you're an emerging company, a spin-out from a larger public entity, or a mature organization that's returning to public status after having been taken private, a vital aspect of IPO preparation should involve rigorously examining your risk management controls and compliance infrastructure through the lens of today's markets, regulators, and investors. What will they require from you as a public company? In the short and long term, what skills, structures, and processes will you need to build, reinvent, or reinforce in order to meet those expectations and requirements? And how will you realistically create a forward-looking risk, controls and compliance infrastructure while mired in the financial, reporting, and governance requirements of SEC registration and stock exchange listing? Just to get its ticker symbol up on the trading screen, a company must check off hundreds of action items both large and small, from auditing its financial statements and upgrading its financial reporting systems and controls to selecting investment bankers and undergoing the SEC review process. Facing time and resource constraints, some companies gamble that they can wait until after their IPO to begin building the interconnected lines of defense that will help protect them against critical operational, technology, and compliance risks in their post-IPO incarnation.

That's a big gamble.

1 PwC press release, "PwC Reports Robust IPO Market Surpasses $21 Billion in Q2 Proceeds, Best Quarter Volume Since 2007" (June 9, 2014): http://www.pwc.com/us/en/press-releases/2014/q2-2014-ipo-watch-press-release.jhtml.

Companies that delay getting their risk, controls and compliance ecosystem in order until after their IPO are counting on vision, luck, and business savvy to see them past the finish line—that point where, their successful IPO behind them, they'll have the latitude to play catch-up. The trouble is, the finish line is a myth. Once a company is public, it's in the race more than ever, in a constant push to maintain its market position. If investor enthusiasm for the company is not maintained, stock price will decline. If stock price declines, the benefits the company sought from its IPO (such as value and liquidity through a future secondary offering) will not be realized. Thus, one of the primary tasks of an executive team post-IPO is broadcasting a continued image of sure-footedness and vision—balancing short-term productivity with long-term goals and avoiding missteps and reputational damage that could adversely affect the stock's value.

Viewed in this light, risk, controls and compliance become vital drivers of sustainable growth, giving companies the tools to meet their new investor, market, and regulatory expectations and reach greater heights of risk management and operational effectiveness.

The benefits are clear:

- Effective management and oversight resulting from well-conceived and well-implemented governance structure and processes
- Improved surety, clarity, and confidence based on comprehensive risk assessment and mitigation efforts as well as efficient and effective compliance processes
- Limited potential for distractions/embarrassments post-IPO
- Smoother operations and lower costs, both pre- and post-IPO
- Teams and structures in place to support the company as it expands into new businesses and geographies, including systems you can bring to support new acquisitions
- An ambitious, capable, and persuasive image for investors and other stakeholders

And the linchpin: a successful IPO with a price that's more likely to be sustained.

Too much, too rushed, too late: The high cost of bad prep

Companies with long-term vision can reach their IPO having already built many of the structures, processes, and systems they'll need to manage the risks, rules, and obligations they'll face as a public company. To these leaders go the spoils: a forward-looking, well-considered path toward opportunity and growth. On the other side, companies that succumb to IPO tunnel-vision and delay laying the foundations of their risk, controls and compliance ecosystem open themselves up to uncertainty. Hamstrung by inadequate systems and processes or sideswiped by unanticipated risk events, such companies may suffer delays, rework costs, and complications during the IPO run-up or in the months immediately after, just when a smooth operation is needed most. In some cases, the damage may be minimal; in others, it can be so great that the company never recovers. Negative impacts could include:

- **Time-consuming hurdles and higher-than-anticipated preparation costs.** What may seem like minor bookkeeping problems to a private company can turn into major headaches when going public — for example, neglecting to capitalize retail purchases of IT hardware or software from a tax standpoint. During the IPO run-up, auditors may identify this failure as a material weakness in company purchasing records and require that those records be revisited and overhauled — a time-consuming task coming at just the wrong time. Conducting a look-back can pull resources away from vital IPO activities, or require the contracting of yet more outside help to complete it in time, adding significant costs.

Need to delay or withdraw the IPO. The acts of preparing for and filing an IPO do not guarantee success, or even the assurance that the company will, in fact, go public. Lack of investor demand is the most obvious potential setback, but other circumstances may also conspire against the company. Recently, a company issued shares in its initial public offering, but less than one week later had to terminate its offering and refund investors. This was believed, according to the Wall Street Journal, to be due to a shortage of capital.[2]

- **Falling stock price after restating earnings.** Between 2004 and 2012, some 31% of recently minted public companies had to restate their earnings, principally due to debt, warrants and equity issues, and issues concerning stock-based compensation and executive pay[2]. This can lead to stock price declines, as has occurred even with some of the largest IPOs in history, inflicting significant and long-term damage.
- **Complete collapse.** In 2005, a large financial services company staged a successful IPO that saw its stock price gain 25% overnight. Barely two months later, revelations of fraudulent accounting sank its stock price from a peak of $30 to under 80 cents. One week later, the company was forced to file for Chapter 11 bankruptcy protection.

2 http://blogs.wsj.com/cfo/2012/03/27/newly-public-companies-fumble-financials/

Doing it right: Seven focus areas

A prescient, thorough IPO preparation that includes attention to risk, controls and compliance issues signals to markets, regulators, potential investors, and non-governmental organizations (NGOs) that your business is primed and ready for the long haul. It's a way to clear the road ahead so company leaders can put their whole focus where it belongs: on the expanded opportunities open to their newly empowered enterprise.

Few companies, however, have the bandwidth to simultaneously build out every aspect of a high-performing risk, controls and compliance function while also building toward their IPO. The art is to prioritize those activities that will add the most value early in the process, an equation that will vary for each individual company.

Based on our experience, addressing the seven focus areas that follow will help you drive towards a successful IPO process, on a timeline that matches your company's growth trajectory.

1. Hone your leadership and build your teams

Aside from cost, the main impediments toward getting your company ready for public life are usually insufficient capacity, expertise, and experience. One of the biggest dangers is a management team that has no public company experience, doesn't know what it doesn't know, and doesn't seek advice. Therefore, as a company prepares for its IPO, it's imperative for it to expand its management capabilities. The investment community wants to be sure that a company isn't a one-man band, but instead has the depth of talent necessary for the long haul. Building an expanded leadership team may require adding individuals with public company experience, both in the C-suite and in marketing, operations, development, finance, compliance, legal, and human resources. It may also involve bringing in third-party advisors to help you through the innumerable and often unanticipated aspects of the process.

At the C-suite level, planning must take into account both the expectations of investors and the realities of post-IPO operations. The CEO must be able to present a clear vision of the company's future, articulate the strategy it will follow to get there, and have a firm grip on both day-to-day operations and the investment landscape. The CFO must be able to render company strategy into financial results, and be prepared for the additional demands that will accrue to his/her office in the post-IPO period.

One of the things investors look for in valuing a company is a cohesive leadership team that shares a long-term vision and has the demonstrated ability to lead the company's future growth. Both at the CEO and CFO levels and in leadership positions for marketing, operations, development, finance, and other functions, companies should consider hiring leaders with previous IPO experience. At a minimum, it's essential that all these leaders be capable of quickly recruiting additional needed talent, building solid teams, and getting lax processes into compliance (e.g., around posting and closing month-end reports, establishing and abiding by SEC- and exchange-mandated policies and procedures, etc.) If the company's industry is highly regulated, candidates for these leadership positions should also have industry-specific experience.

Building an IPO advisory team of independent auditors, compliance and internal controls experts, underwriters, securities counsel, etc. is also critically important to the success of your IPO. Both internal and external staffing processes should begin at least one and up to two years before filing for SEC registration.

Bringing in third-party advisors will allow you to draw on their expertise, and the efficiencies they can bring will help you efficiently and effectively scale your risk, controls and compliance and IPO readiness efforts. The key is to choose allies who will help drive you toward the solutions that are appropriate for your business. You have to communicate transparently with your advisors about your risk appetite and your way of doing business, be candid about what you expect of them, and truly partner with them to build the control framework you need.

Compliance Risk Assessment Methodology					
Project Planning			Execution	Analysis & Assessment	Compliance Activities Roadmap
Customize Baseline Compliance Risk Assessment Framework & Universe	Identify the Compliance Risk Assessment and Determine Interview Format	Prepare for Interviews	Conduct Interviews, Document Results, and Identify Preliminary Gap Assessment	Analyze, Prioritize and Report	Identify and Develop Compliance Activities Roadmap

2. Evaluate your Sarbanes-Oxley readiness and controls infrastructure

Meeting the provisions of the Sarbanes-Oxley Act represents a significant compliance challenge for companies planning an IPO.

The Act contains 11 major sections that enumerate responsibilities incumbent upon public company management, boards, and auditors in the areas of financial practices, accounting controls, and corporate governance. The Act also imposes criminal penalties for non-compliance.

Though there are numerous overlaps between the requirements of Sarbanes-Oxley and the listing requirements of some exchanges, the timing of these overlapping provisions may differ. Management should start planning as early as possible to not only understand the various compliance time frames, but also to take advantage of the timing to strategically plan an implementation. Many companies have found that effectively implementing a strong internal control framework requires significant process changes, a fact that argues in favor of addressing SOX compliance issues early, so staff are able to focus on other IPO-related matters such as preparing filing statements and coordinating with banks and underwriters.

Key areas of SOX compliance include:

Management responsibility for financial controls and reporting. The most costly provision of the Act, SOX Section 404 requires a company's management (CEO and CFO) and external auditor to report on the adequacy of the company's internal control over financial reporting. The section mandates the inclusion of an internal controls report in annual financial reports, affirming management's responsibility for establishing and maintaining an adequate internal control structure and procedures for financial reporting. This includes an assessment of the effectiveness of the company's internal control structure and procedures for financial reporting. Companies must also identify the control framework used to conduct the required evaluation. (Typically, US companies use the Committee of Sponsoring Organizations' (COSO) Internal Controls—Integrated Framework.) Registered public accounting firms that prepare or issue an audit report on a company's annual financial statements must also attest to, and report on, the assessment made by management. While newly public companies[3] are not required to comply with these requirements until their second annual

3 A newly public company is defined as one that was not required to file an annual report pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 for the previous fiscal year and did not file an annual report for the prior fiscal year.

report, companies preparing their IPO need to consider the discussion of their Section 404 plan and timeline in their marketing documents. Companies are required at their initial filing to be in compliance with Sections 302 and 906, which require that the CEO and the CFO of a public company certify that the company's financial statements are accurate and comply with requirements of the Securities Exchange Act of 1934, and that information contained in the periodic report fairly presents the company's financial condition and results of operations. For this reason, management should integrate consideration of internal controls into the company's financial processes as early as possible to allow time to implement and adequately assess the effectiveness of those controls.

- **Board composition and requirements.** SOX requires that a majority of board members at a public company be from outside the company—a requirement also imposed by the NYSE, NASDAQ, and the American Stock Exchange. At least one board member must have a financial background either as a CPA or CFO. One member must chair the audit committee, and outside directors must meet in executive session. However, a company that qualifies as a controlled company (one in which more than 50% of the voting power for election of directors is held by an individual, a group, or another company) is exempt from the requirements of having an independent board of directors. Attracting and retaining qualified board members has become more difficult and more expensive due to the perceived higher level of risk and shift from equity to cash compensation.
- **Board committees: composition and requirements.** Both Sarbanes-Oxley and the stock exchanges require public company boards to have an independent audit committee with at least one member qualified as a financial expert. Similarly, depending on the listing exchange, companies going public will also need to address requirements for the creation of compensation and/or nominating and governance committees. Companies should understand the requirements and skills required and evaluate the composition of their committees to allow sufficient time to seek qualified individuals.
- **Limits on outside auditor relationship.** SOX prohibits a company's external auditor from providing certain non-audit services, including but not limited to internal audit, legal, and valuation services. Services such as tax and general advisory are exempt from this prohibition, but must be pre-approved by the audit committee. Accordingly, companies should evaluate their existing relationship with their outside audit firm to clarify permissible and non-permissible services and to establish clear independence related to existing or future services.
- **Code of conduct/ethics.** As discussed, SOX and exchanges such as the NYSE and NASDAQ require a code of ethics for senior financial officers or clarification on why one has not been implemented. It is important to understand the overlapping nature of these requirements so the company can develop and implement appropriate, and appropriately efficient processes.

Some companies may be able to defer some aspects of SOX compliance by qualifying for "emerging growth company" (EGC)[4] status under the Jumpstart Our Business Startups (JOBS) Act of 2012. Under the act, EGCs are temporarily exempted from the internal control audit requirements of SOX Section 404 (though not from the requirements for CEO/CFO affirmation), from various existing and forthcoming disclosure requirements related to executive compensation, and from potential rules relating to mandatory audit firm rotation or supplemental auditor discussion and analysis reporting.

4 EGCs are defined as companies with less than $1 billion in annual revenues in their most recent full fiscal year and less than $1 billion in non-convertible debt issuances within the past three years, and which are not currently large accelerated filers with public floats in excess of $700 million.

3. Gauge the capability of your systems to meet new requirements

A company's existing systems and processes will often prove inadequate for its future state. Therefore, another vital aspect of the enterprise risk assessment process should involve determining whether those systems are sufficiently robust to accommodate company growth, and deliver the levels of information and detail that will be required to meet the company's new public reporting and compliance responsibilities. An emerging company, for instance, can't carry on using off-the-shelf accounting software once it grows past about 100 people, and it also can't take the processes it uses with such software and port them into a more appropriately scaled suite of business software. Companies being spun out from larger enterprises might face the opposite problem: scaling down from more complicated tools and processes. Moreover, companies built through acquisition often face challenges of disintegrated systems and questionable data quality. In any such case, the processes have to change before the new tools are installed—preferably a year or more ahead of the launch. Areas in which a risk assessment will typically uncover scalability issues include:

- **Accounting systems.** Most companies will need to grow the capabilities of their accounting systems during the run-up to their IPO. Systems more suited to a small, private company can't be allowed to slow the process of closing the books in a timely fashion. If closing eats up two to three weeks every month, the finance function will lack the bandwidth to focus on value-adding activities. An ineffective process could also lead to reporting errors and inadequate analysis of results. The increased scrutiny and reporting requirements that come with being a public company also make it imperative for the pre-IPO stage.
- **Human resources systems.** With the war for talent raging worldwide, attracting and retaining the talent you'll need will be one of your biggest challenges. To help your company manage talent risk, you'll need a flexible, integrated, easily customizable HR system, that covers not only the basic HR management functions but also areas such as strategic recruiting, employee development, internal employee communications, social and mobile networking, and embedded metrics to allow for robust talent analytics.
- **Customer relationship management systems.** In the lead-up to an IPO, investors will be paying particular attention to your company's potential for growth, and assessing whether you have the capabilities and systems to deliver steady, continuing profitability. To help drive sales and revenue in the 18 months prior to an IPO, companies should take steps to capture all information flows about current and future market opportunities and integrate them within a central repository, giving leadership a complete picture to help identify and target resources to high-potential opportunities, predict future areas of growth, and acquire and enable sales leadership to keep the momentum going.

Though ramping up your processes and systems can seem daunting, especially while mired in the other complexities of IPO preparation, you'll reap benefits in having the necessary platforms in place, up-to-date, and operating smoothly to support the business and the upcoming IPO process.

4. Create your ethics policy, standards, and controls

To comply with listing rules, prepare for the legal and regulatory requirements of public-company status, safeguard the company's reputation, and build investor confidence and valuation, IPO-bound companies must develop a comprehensive code of conduct/ethics policy along with a set of standards, procedures, and controls to govern how that policy is implemented, operationalized, and enforced.

A code of conduct and its supporting policies can focus management and the board on areas of ethical risk, provide guidance to company personnel on recognizing and dealing with ethical issues, establish mechanisms to report unethical conduct, foster a culture of honesty and accountability, and give third-parties insight into the values by which the company has committed to operating.

Some areas covered by a code of conduct are mandated by law and some are required for stock exchange listing. SOX, for instance, mandates strict code of conduct requirements around financial reporting, conflicts of interest, ethics for senior financial officers, whistleblower protections, and other accounting and corporate governance matters. Exchanges, including the NYSE and NASDAQ, have defined corporate governance listing standards that include establishment of a code of business conduct and ethics for employees and directors, the establishment of an internal audit function (NYSE), and approval of related-party transactions (NASDAQ). Given the level of interest by today's institutional investors and the investing public in corporate governance matters, it is more important than ever for companies to give thorough attention to creating and refining their corporate governance principles and practices when planning their public offering.

While companies have leeway regarding the precise composition of their codes of conduct and supporting policies, important areas that should be addressed include:

- **Integrity of accounting practices and financial reporting.** A commitment to assuring that the company's accounting records contain no intentionally false or misleading information and comply with all applicable accounting principles, laws, rules, and regulations, and that the company makes full, fair, accurate, and timely disclosures in its periodic reports.
- **Conflicts of interest.** A policy that clarifies ways in which an individual's private interests may interfere or appear to interfere with the interests of the company, and applies appropriate restrictions.
- **Compliance with insider trading laws.** A policy forbidding employees, officers, and directors from trading in securities based on material non-public information.
- **Anti-bribery/anti-corruption/anti-fraud policies.** A code of conduct that (a) forbids the company's people from offering, promising, or paying a bribe to any government official to secure preferential treatment (per obligations under the US Foreign Corrupt Practices Act and the UK Bribery Act); (b) forbids the company's people from soliciting, accepting, offering, promising, or paying a bribe to induce the improper performance of a function or activity at a business or organization; and (c) forbids the use of fraudulent practices to obtain an advantage, avoid an obligation, or cause a loss. Examples of fraud could include deception, forgery, theft, conspiracy, extortion, embezzlement, misappropriation, concealment of material facts, false representation, and collusion.
- **Whistleblower policy.** Per SOX's whistleblower protection rules, public companies are required to create an internal apparatus to receive and review allegations of fraud or violations of the company's code of business ethics. To combat fears of reprisal or bias, companies should consider an outsourced phone and/or web-based hotline.
- **Third-party due diligence and risk management protocols.** Companies that engage in third-party business relationships must conduct appropriate and responsible due diligence and employ thorough risk assessments and reliable approval and contracting processes around potential partners and vendors. Processes should include documentation of the review and decision-making process, along with a statement of the reasons for contract approval. Use of a central decision-making apparatus over third-party agreements promotes the application of consistent review standards.
- **Data privacy and security policy.** With cyber-security and privacy concerns garnering headlines worldwide, companies must assure investors, regulators, and markets of the efficacy of their data security and privacy protocols. Areas of concern include risks related to digital and physical data security, mobile computing, data exchanges with third parties, cloud services, social media, and the collection, retention, and use of sensitive customer information.

After defining each element of the code of conduct, companies need to create the detailed compliance standards, and procedures that will enable their application and adoption across the enterprise, and controls to help assure their continued effectiveness.

5. Conduct a compliance risk assessment

To gain an overall view of its current and future compliance obligations, supporting the company's ongoing performance, an IPO-bound company should conduct a thorough compliance risk assessment, evaluating all risk factors relative to the laws, regulations, policies, procedures, ethics standards, business conduct standards, voluntary standards, best practices, and contracts to which the organization is committed, or will be committed, or bound, following its IPO. Such an assessment will help the organization catalogue and prioritize the full spectrum of its compliance risks, based on its business imperatives, and gauge its resource allocations based on assigned risk ratings.

Some areas of the compliance risk assessment will dovetail with risk assessments the company will be conducting as part of its IPO preparation, including assessments related to internal controls over financial reporting (see "Evaluate your SOX readiness," below), monitoring of client accounts, operational and third-party risk management, anti–money laundering, etc. Depending on the organization, a compliance risk assessment could be conducted by legal, compliance, risk management, and/or internal audit, likely with assistance from a third-party.

Management should undertake a compliance risk assessment as part of a larger enterprise risk assessment that provides a detailed overall picture of current and emerging risks to the organization on various fronts: compliance, strategic, financial, operational, etc. To satisfy the expectations of some stock exchanges (e.g., the NYSE), the audit committee should exercise oversight of the assessment process. The results of the enterprise risk assessment can be used as an input to your Sarbanes-Oxley (SOX) compliance efforts, and can also serve as the basis for focused audits designed to test and assess your company's existing risk-mitigation controls which will, in turn, inform the creation of a sustainable enterprise risk management (ERM) program.

6. Elevate your governance, risk management, compliance, and internal audit activities

In the business environment of the past decade, elevating the quality of governance and risk management, the precision of compliance, and the capabilities of internal audit have become strategic priorities for all businesses. A company making the jump from private to public, though, has the added pressure of needing to predict and plan for the risk and compliance issues its future-state self will face in an environment made unfamiliar by new responsibilities, new potential markets, and a larger scale of operations. The complexity of global environments, the pervasive impact of technology and the expanding regulatory environments only make these challenges greater.

A company's various pre-IPO risk assessments and compliance readiness assessments, along with the insights and experience of its leadership team, should help clarify its view into the risk and compliance landscape it will be facing as a public company, and of its abilities to navigate that landscape. Based on these inputs, the company must then go about structuring a scalable governance, risk management, compliance, and internal audit framework capable of meeting regulatory and listing requirements, the demands of risk-aware investors and analysts, and the risks and opportunities of rapidly shifting markets.

Regardless of industry, a public company will generally require:

- Policies and processes to allow effective risk identification, assessment, and management by senior leaders
- Processes and mechanisms to prioritize risks and allocate resources and attention on a risk-rated basis
- Formal communication channels to the board regarding compliance, risk and risk management issues
- Mechanisms to make risk disclosures to the public
- A formal compliance infrastructure, compliance program, and related reporting
- A formal internal audit infrastructure (a requirement at the NYSE)

Enhancing risk management processes and structures starts in the C-suite, with the board exercising its appropriate oversight role by pushing management to identify all relevant risks and then obtaining assurance that those risks have been properly managed. From here, risk management cascades down into the business, where it's overseen by the company's various risk and compliance functions, which could include internal audit, legal, regulatory, SOX and ethics, IT, etc. Coordination is critical: when the disparate strands of a company's governance, risk, compliance, and internal audit efforts are brought together into a coordinated system rather than operating in silos, the result is not only greater effectiveness and efficiency but the ability to align systems, people, and culture with management's strategic priorities.

Risk management, controls and compliance processes are likely already in place at some level in most pre-IPO companies, but may be neither formalized nor sufficiently robust to meet the requirements placed on public companies.

Companies preparing to go public will therefore need to build out their risk, controls and compliance, and internal audit functions, prioritizing the people, processes, and technologies that will be most important, valuable, and effective as the company navigates the IPO process and assumes its new responsibilities as a public entity.

Another option is to outsource all or part of the company's internal audit and/or compliance processes, including SOX compliance, in order to quickly elevate and have the ability to scale the internal audit and compliance capabilities to meet the business where it is today and where it will be post-IPO.

7. Instill a public company mindset

The move from private to public requires a company to change its mindset in certain key ways. The expectation of privacy, for instance, will be an early casualty, starting with the initial SEC registration statement and continuing with required, ongoing financial statement disclosures. Before, details regarding the company's business, operations, and finances might have been kept strictly confidential; after, your competitors, customers, and employees will all have ready insight into your sales, cost of sales, borrowings, cash flows, gross profits, major customers, executive compensation, and other information. Before taking their place on the public stage, a company's owners and executives must mentally prepare for the spotlight.

Finding the correct balance between risk and control requires a further shift in mindset. While this requirement is not strictly a function of being a public versus private company, being public makes finding the optimal balance for your business both more important and more complex. For example, what's your decision-making structure? Emerging companies often benefit from strong, centralized decision-making, which ensures that limited resources are used most productively in the furtherance of company goals. But as the company grows, this kind of rigid, top-down structure becomes a constraint that impedes growth. Delegating decision-making might increase the risk of a bad call damaging the enterprise, but constricting the company's potential for nimbleness, flexibility, and innovation opens up the company to far greater potential harm.

Prepping your company for enhanced risk management and compliance obligations is a further challenge. Preparation extends beyond developing the actual controls for managing and mitigating risk, encompassing scalable practices, and systems designed to govern the creation and administration of those controls. Public companies must learn to speak the language of risk and compliance for a post-financial-crisis audience of regulators, investors, analysts, journalists, and NGOs for whom risk is the new *lingua franca*. Failure to provide the right comfort around risks could erode stakeholder esteem — or worse, lead to actions that could actively damage the company and its brand.

In the current environment, a risk, controls and compliance mindset should ideally be integrated into day-to-day activities across a company's structure, aligning its people, systems, and culture through a common risk-and-compliance language.

Timing your strategic preparation to the IPO window

Timing is critical for IPOs: in a fickle market, windows of opportunity for good pricing open and close quickly. For companies preparing to fortify their systems and processes to amplify their chances of success in the IPO and beyond, the trick is to find the right balance between building the business, putting resources into preparation, and being ready when the market says "go."

For most companies, building the necessary teams (in Finance, Human Resources, Internal Audit, Legal, Compliance, IT, and Operations, for example) generally takes about six months, determining your organization's top risks can take six weeks or more, documenting and implementing the controls that will be included in your SOX readiness plan takes six to nine months, and completing controls testing usually takes an additional nine months — adding up to about two years.

In an ideal situation, a company would be able to conduct its preparations during less frenetic conditions in the IPO market, getting everything in place for the moment the window opens. To hit that mark, a company needs a strategic plan that catalogues its preparations and prioritizes those activities that will add the most value early in the process (something that will vary by company). The art lies in building strength, agility, and control in just the right measures, and hitting your mark just as the spotlight turns your way.

Conclusion: Building for the risks ahead

We live and operate in a world of risks — now more than ever. As companies plan the jump from private to public, the time is right to also plan the jump from reactive to proactive risk management and compliance. Taking measured steps to establish your risk and compliance ecosystem now can support your company through the IPO process and beyond, and save you the expense and risk of retrofitting systems and processes to the company later. The focus areas outlined in this paper form the core of those early efforts:

1. Hone your leadership and build your teams
2. Evaluate your Sarbanes-Oxley readiness and controls infrastructure
3. Gauge the capability of your systems to meet new requirements
4. Create your ethics policy, standards, and controls
5. Conduct a compliance risk assessment
6. Structure your governance, risk management, compliance, and internal audit activities
7. Instill a public company mindset

Such preparation is a boon to your business, whichever way you slice it. For investors, it shows that your company has the foresight and the capabilities to support long-term growth and profitability. For regulators, it signals your commitment to your public company compliance obligations. For you, the business, it's an investment that will pay off not just in smoothing the path to your IPO but in fortifying your company to meet both the risks and opportunities ahead.

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