

ENTRY PHASE

The three most expensive MIP administration mistakes, and how to avoid them

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The expensive mistakes in MIP administration are not exotic. They are mundane, they recur across programme after programme, and not one of them is complicated. What makes them expensive is timing: each is almost free to prevent in the moment, and each arrives as a bill at exit, the point at which there is no longer time to fix it quietly.

This article closes the entry block of the series. The previous two looked at the documents you need to set a plan up correctly and the discipline of onboarding participants into it. Here we step back and ask a blunter question: across a large number of PE-backed programmes, which administration mistakes actually cost the most?

The answer is consistent enough that it is worth stating plainly. Three errors come up again and again. They are made early, at and around entry, but the cost is deferred, which is exactly why they are allowed to happen. Nobody feels the consequence at the time. The consequence is felt years later, in the exit window, by which point the cheap fix has become an expensive reconstruction.

None of what follows is technically hard. All of it is avoidable with ordinary discipline. That is the frustrating part, and also the reassuring one, because it means the fix is available to any programme willing to apply it.

Mistake one: letting the record lag the event

The most common and most expensive mistake is also the most ordinary: recording changes after the fact rather than as they happen. A participant joins, someone leaves, an equity round completes, vesting reaches a milestone, and the update to the record is noted as something to do "when there is time." The events keep arriving; the recording falls behind. A backlog forms, quietly, and nobody notices because nothing visibly breaks.

The problem is that MIP administration compounds. Each event changes the position against which the next event is measured. Record one transfer late and at an approximate value, and every subsequent calculation that depends on it inherits the imprecision. The record does not just fall behind by one entry, it falls out of alignment with reality in a way that grows with every event that follows.

And the work does not disappear by being deferred. It waits. When the exit process begins and the buyer's advisers start asking precise, dated questions, the entire backlog has to be reconstructed at once, in order, against the right values, under time pressure. The few minutes that each entry would have taken in the moment become a forensic exercise at the worst possible time.

The fix costs almost nothing: record every event at the time it happens, at the right value, against the right terms. A disciplined few minutes per event, spread across the hold, is the single cheapest insurance available against a reconstruction exercise in the exit window.

Mistake two: keeping more than one source of truth

The second mistake is to let the same information live in more than one place. It happens almost by accident. Finance maintains a cap table. The company secretary keeps the share register. The fund manager has a tracker of its own. Each is reasonable in isolation; each is updated by different people, on different schedules, for different purposes. And slowly they drift apart.

The moment they disagree, a question with no easy answer appears: which one is right? Each looks authoritative. Each has been maintained in good faith. But they cannot all be correct, and resolving the discrepancy means going back to source documents and reconstructing what actually happened, which is the very work the records were supposed to make unnecessary.

Two records that disagree are worse than one record that is merely behind. A single lagging record can be brought current. Competing records first have to be reconciled against each other before anyone can even establish what "current" means, and that reconciliation almost always surfaces, for the first time, during due diligence.

The discipline that prevents this is to designate one record as authoritative and to treat every other view as a copy, never as a parallel original. A purpose-built platform makes this easier, because it gives everyone the same single record with an audit trail rather than separate files that each feel official. But the tool is not the point; the principle is. One source of truth, one place where events are entered, and everything else explicitly downstream of it.

Mistake three: treating the valuation points casually

The third mistake is to handle the moments that turn on a value as if they were administrative formalities. There are two such moments in particular, and both are tax-sensitive: the value at which a participant enters, and the value at which a leaver's instrument is repurchased.

Entry value sets the participant's cost base and underpins the tax treatment of everything that follows, acquire below market value and the discount risks being taxed as employment income, the dry tax charge the previous article described. Repurchase value, at the other end, determines what a departing participant receives and is just as capable of being disputed if it was never put on a defensible footing. In both cases the number matters, and in both cases the failure is the same: it is agreed loosely, or estimated, and not documented at the time on a basis that would withstand scrutiny.

How entry and repurchase values are determined, and how they are treated for tax, varies by jurisdiction and by the facts of each plan, and is squarely a matter for (external) legal and tax counsel. The administrative discipline is narrower and universal: whatever basis is used, fix it at the time and document it, rather than leaving a number to be defended retrospectively.

The reason this is so expensive at exit is that valuation is exactly what a buyer's advisers probe hardest. A cost base that cannot be evidenced, or a leaver repurchase that was handled on a handshake, is not a rounding issue, it is a live question over real money, raised at the moment everyone is least able to absorb it.

The three, side by side

Set out together, the pattern is hard to miss. Each looks negligible in the moment, and each converts into real cost at the one moment it cannot be absorbed.

THE MISTAKE	WHAT IT LOOKS LIKE AT THE TIME	WHAT IT COSTS AT EXIT
Recording events late	A change noted when there is time; a quiet backlog of unentered events	"for A reconstruction figures that cannot be tied to a date or value
More than one source of truth	A cap table, a register, and a tracker, each maintained separately in good faith	Records that disagree, is authoritative without going back to source
Casual valuation points	Entry and repurchase values agreed loosely and left undocumented	Cost bases and leaver prices that cannot be defended when advisers probe them

The common thread is timing. Not one of these is a failure of capability, the people involved are perfectly able to do the work. They are failures of when: work deferred to a moment when it costs many times what it would have cost done promptly.

Why capable teams make all three

If these mistakes are so avoidable, why are they so common? The honest answer is that all three share a single underlying cause, and it is not incompetence. It is that, during the hold, the administration usually has no clear owner and no fixed rhythm.

The work sits across functions, finance, legal, the fund, and falls cleanly to none of them. It is never the most urgent thing on anyone's desk, so it loses, every time, to whatever is. The events that should be recorded promptly are recorded eventually; the records that should be reconciled are left to diverge; the values that should be fixed and documented are left to be sorted out later. None of it is decided; it simply drifts, because no one is responsible for it not drifting.

The three expensive mistakes are not really three separate errors. They are three symptoms of the same gap: an administration that belongs to everyone and therefore to no one. Close that gap, give the work an owner and a rhythm, and all three largely cease to happen.

That ownership question is substantial enough to be the subject of its own article, and it is where this series turns next: who actually owns the MIP, the fund, the CFO, or counsel, and what to do about the fact that, too often, the honest answer is no one.

What this means in practice

FOR FUND MANAGERS

Make promptness a standard, not an aspiration. The expectation should be that every event is recorded as it happens, because a backlog never announces itself, and is only discovered when it is most costly.

Name the authoritative record. Decide which single record governs, and make every other view explicitly a copy. Competing originals are the second mistake waiting to happen.

Give the administration an owner. The single intervention that prevents all three mistakes is making someone clearly responsible for the work being done and recorded, with the time and the knowledge to do it.

FOR CFOS AND MANAGEMENT TEAMS

Document the valuation points at the time, with counsel. Entry values and leaver repurchase values are where loose handling becomes a defensible-figure problem at exit. Fix the basis and record it when the event occurs.

Keep one record current, not several roughly. A single, disciplined source of truth, platform or otherwise, beats three well-intentioned files that quietly disagree.

Treat each event as a closing in miniature. A leaver, a joiner, an equity round: each changes the position and deserves to be recorded with the same care as the original deal, while the detail is still fresh.

One last thought

It would be satisfying if the costly mistakes in MIP administration were sophisticated, the kind that require deep expertise to avoid. They are not. They are recording things late, keeping more than one version of the truth, and being casual about the numbers that matter. Ordinary lapses, every one of them avoidable with ordinary discipline.

What turns these small lapses into large costs is always the same thing: time. Left alone, they wait quietly until the exit, then present themselves all at once, with interest. The programmes that avoid the bill are not the ones with the cleverest administration, they are the ones that did the simple things promptly, throughout. That is the discipline, and it is the work we do at MIP Desk.