Pearl Meyer

ADVISOR BLOG

# Biotech Layoffs: Ideas for Creating a Fair Compensation Plan


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After a protracted period of significant growth and investment in the biotechnology and pharmaceutical industries, share prices are down significantly and the capital markets have cooled off. Many companies are now discussing how to conserve cash to extend their operating runway and avoid unnecessary dilution from new capital.

One of the difficult but likely avenues some will pursue is staff reduction, which we have already seen play out among a number of companies in the first half of 2022. (This is a shift from the early days of the pandemic, when the industry was more inclined to implement pay reductions and maintain staffing levels.) Because so many companies in the sector are smaller, early-stage organizations, a formalized policy may not exist to address headcount reductions. This increases the likelihood of potential missteps that damage employee morale and can have lasting impacts on a company's ability to attract and retain talent in the future.

For companies considering a reduction-in-force, or "RIF" as it's commonly known, developing a well thought out and empathetic strategy centering on fairness is imperative. This is particularly critical in the tight-knit bio/pharma industry as even the perception of unfair treatment could tarnish a company's reputation. (We also see this among companies that have rescinded candidate offers in recent months.)

While many CHROs, CEOs, and board members are familiar with the basic elements of a company-wide headcount reduction initiative, unique elements of pay and broader HR programs in the bio/pharma industry should be considered when designing the plan and the communications rollout. Some of these characteristics include:

1. **Many companies are new, and so are their employees.**
The standard model for severance across most industries is a baseline number of weeks in salary plus a week or two of additional salary severance per year of service, up to a stated cap. (For example, a RIF program in an industrials company might provide six weeks' salary as a baseline and one week additional for every year of employment up to 20 years. An employee with five years of service would receive a total of 11 weeks of pay.)

However in biotech, it is rare for a meaningful number of employees to be long-tenured and it becomes much more important from an accepted fairness standard to provide a material number of baseline weeks of severance.

2. **Unlike many other industries, most employees in the biotechnology space have an equity stake in the company.**
In addition to the cash severance described above and benefits continuation (e.g., COBRA), consider allowing employees (a) to vest into awards that were scheduled to become vested in the near term, and (b) some longer period of time to exercise vested options.

These are non-cash expenses to the company that can deliver additional value to the departing employee. This component to a RIF program recognizes their contributions during their tenure, and conceptually aligns them with company success for some longer period of time. Additionally, some companies include a prorated cash bonus to recognize the portion of the year in which employees contributed to the company's goals.

3. **While some companies do indeed need to reduce staff, there are other companies that may have immediate employment opportunities.**
Offer affected employees an opportunity to include their background and contact information in a "resume book" to be compiled and shared with other biotech community companies that are still in hiring mode. This is an exceptional way to help experienced, valued staff gain new employment and reiterate the message to them—and to other companies' hiring managers and HR teams—that the separation is no-fault. Actively promoting this book to other HR teams at other organizations also builds important networking bridges for the future.

While performing a RIF is a difficult and draining exercise, tailoring the RIF compensation strategy in a way that balances the need to reduce costs with providing some meaningful value to employees can have a lasting positive impact for the company. We frequently encounter individuals in the industry who have returned to organizations they may have left during a RIF because they continued to believe in the company, its culture, felt fairly treated, and clearly understood the rationale for their exit.

## About the Authors

**Terry Newth** is a managing director at Pearl Meyer. He consults on the design, development, and assessment of executive compensation programs that support each organization's business objectives, long term business strategy, and organizational culture. His clients range from Fortune 500 organizations to pre-IPOs to private and family-owned companies in a wide range of industries. Terry's areas of expertise include pay strategy and philosophy development, market-based pay studies, incentive plan design, severance and CIC arrangements, outside director pay, transaction-related compensation, CD&A and supporting table disclosures, corporate governance, and share plan authorizations.

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## About Pearl Meyer

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