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Beyond Equity: Strategies to Retain Top Life Sciences Talent

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There's no overstating the workforce upheaval that companies have experienced in recent years. The pandemic that upended office norms by prompting a mass migration to remote work also ushered in an unprecedented labor squeeze, with employees jumping ship for new opportunities or opting out of jobs entirely. Rampant turnover gave rise to a fiercely competitive labor market, one where hanging on to key employees became paramount—and substantially more challenging.

The difficulty has been particularly pronounced in fields like life sciences, where companies grapple with filling jobs that require highly specialized skills and which often entail time consuming and costly onboarding processes. At the same time, a post-pandemic pivot away from pay as a primary motivator has business leaders rethinking traditional methods of compelling staffers to stay on.

The bottom line? More and more companies are finding that compensation-related retention incentives are no longer enough to keep employees engaged and dampen attrition, Matt Molberger, managing director at Pearl Meyer, told executives participating in a recent roundtable. At the event, which was cosponsored by Pearl Meyer and Chief Executive, he explained that public companies are "looking at their employee populations and feeling like decisions made over the past few years are not achieving all of their objectives, namely to motivate and retain people."

Market volatility hasn't helped. Many employees with options granted in more stable economic times are now finding them underwater due to declining valuations, giving them less incentive to stay. Volatility has been even more pronounced in life sciences, which is also a field where options have long been a popular compensation vehicle, added Molberger. "We spent lot of time this past summer talking about option repricing, which was something that never got airtime in the past."

Priority Pivots

Looming even larger for CEOs, however, is the sense that compensation is no longer the primary concern of highly specialized talent. At DIA Global, CEO Barbara Lopez Kunz explained that "an exodus" of employees after the pandemic served as a wakeup call for the organization. “I thought, What’s happening?” she recounted. “So we started addressing things like the culture, flexibility and the need for people to have balance in their lives. I think all of us being thrust into a different way of working made us realize how much we really wanted other things—and I put myself into that category as well.”

In response, the company began holding meetings where team members shared their perspectives on what working at the company meant to them and how its mission and values intersected with their personal goals. Lopez Kunz said the dialogue helped foster a culture of teamwork, collaboration and learning and development. “I think those things have become equally important, perhaps even more important than compensation on its own,” she explained.

Avidity Science CEO Doug Lohse had a similar experience when the results of employee surveys taken during and after Covid revealed a change in workers’ perceptions of the workplace and satisfaction levels. But while the surveys surfaced general areas for improvement, how the company should adapt to address them was far from clear.

“We realized we probably didn’t have a real understanding of what it would take for our particular company to improve the employee experience,” Lohse said. “Recently, we started sitting down with a very small group of employees twice a month and asking questions of individuals from various parts and functions and locations around the world to help us understand what’s really important vs. the general statements people talk about, such as wanting work-life balance.

“We have to force, in a positive way, structured conversations that allow us to pull out those little tiny nuggets and string enough of those together so that we can really enhance the employee experience and prevent our people from wanting to go somewhere else. We still don’t have the answers, but we know they’re out there. We’ve got to go get them from our employees.”

Attacking Pain Points

Once collected, that feedback isn’t always easy to address. Lohse recounted a conversation with a longtime employee who pointed out that the growth trajectory management viewed as a success was a sore point for at least some of its workers. “He essentially said, ‘Depending on the chair you sit in, growth isn’t always good,’” Lohse explained. “The growth we’ve experienced over the last few years had made his life more complicated. That suggests that you have to put on a different lens, the perspective of a person a few levels below rather than a leader’s, to understand how that growth affects their work experience. Because personally, I never would have conceived of the idea of growth not being a good thing until I heard from someone who said, ‘It’s not good for me.’ So we’re trying to dig into that and come up with new ways to deal with it.”

The issue may be the pace and intensity of workload, or a shift away from the employee’s passion. “We see this in working with biotech and pharma companies,” noted Molberger, who pointed out that in the same way that employers evaluate employees, employees are constantly evaluating their employers and their employment situations. “They may have the skills to participate in the next stage of your company’s lifecycle, but it may not be their passion. People who are intensely interested in research and development can become disengaged when the organizations mature into clinical stage companies or commercial companies. The emphasis on research can be diminished, and that can lead to employees walking out the door."

Recognizing the need for greater clarity around employee experiences has led some companies to expand the role of the HR department, noted Joe McNeal, a managing director at Pearl Meyer. "The big learning that came out of the pandemic is that employees are looking for more than just a competitive base," he said. "That's why you're seeing more companies migrate to a 'chief people officer' or 'head of employee experience.' These title changes acknowledge the need for the HR team and senior leaders to be much more adept at delivering an experience for staff rather than a competitive paycheck that you cash every other week in exchange for what's perceived as a non-rewarding experience that lacks development and other intangibles."

While taking place across a broad swath of companies, the need to rethink retention is more pressing in some industries and roles than others. In healthcare, for example, controversy about working conditions and vaccination policies exacerbated an existing shortage of healthcare providers, pointed out Dino Soriano, CEO of Clinical Match Me. "Between the shutdowns and the 'if you don't get vaccinated, you're fired' policies, there were areas of the country where 63 percent of nurse practitioners and physician assistants were sent home," he said, adding that those who stayed then faced working in extremely challenging situations. "So now there's an extreme shortage, and they're saying, 'well, how do we attract people to come back when we basically threw them out?'"

Rethinking Retention

Opportunities for growth can help bridge that gap, said Jon Weiss, CEO of Stellate Therapeutics, who experienced this firsthand while working as a research scientist at a previous employer. "Most life sciences companies are pretty siloed; pre-clinical people do pre-clinical, and clinical people do clinical," he said. "But my company allowed me to be included on clinical trial planning and to stay with the project and expand my toolkit to really understand the clinical development path."

It's a theory he's applying at Stellate Therapeutics, where the biotech's scientists are included in meetings about formulation and animal studies. "I think letting scientists grow with the project as it moves forward is important, because scientists get emotionally attached to these projects. So if you bring them along a bit they don't feel left behind."

Being part of a successful team and a culture that fosters a sense of belonging can also boost retention, said Gregory Fiore, co-founder and CEO of Exacis Biotherapeutics. "The success of a company certainly seems to be a huge part of why people stay, but then having a place where they feel comfortable, a sort of family environment, is important," he said. "I've seen companies at both ends of the spectrum there, and the ones that are at the family environment end of the spectrum with their internal culture really have to work pretty hard for people to leave. And the opposite is true at the other end of the spectrum."

Ownership opportunities are another way that life sciences companies can keep key employees. At RHM, a policy of championing and supporting employee entrepreneurship has a dual purpose, noted Mark Aubry, CEO. "One, we want to promote people feeling like they're part of the team," he said. "And two, we don't want them taking something that could be really awesome across the street and competing against us."

Instead, the regenerative health management company helps employees build business plans for their ideas and get started on developing them. "We promote anybody who starts their own business, and they become the majority owner," explained Aubry. "We're not looking to say, we're going to have 90 percent and you'll have 10—it's the other way. We've found that people want to be engaged and want to have ownership."

"Companies in the life sciences sector, more often than not, are looking to build an ownership culture," agreed McNeal. "Regardless of the economic headwinds, we see the emphasis that companies and founders place on building an ownership culture continuing. Everyone has a stake, and everyone is aware of what their stake is and what it could potentially be worth. We're not going to get away from companies needing to put together competitive salaries and bonus packages, but that ownership piece is what continues to differentiate the life sciences sector relative to others."

Equity as a Lever

In some cases, "ownership" may translate to employees getting a stake in the products they are helping to develop. However, many life sciences companies still rely on more traditional forms of ownership, such as company stock or options. However, those incentives are proving less effective in today's market, noted several CEOs participating in the discussion.

"The value of equity means different things to different people," said David Wood, CEO of Experic Services. "Folks with a bit more experience workwise value it much more than folks who are mid-level or younger and don't know anyone who has cashed in and had a good experience. Word of mouth is still the strongest influence that way. So I don't think that people always value equity grants the way that I feel they should and that my investors think they should. That's a challenge, and if we can't get them to value equity, what is plan B?"

Employees who haven't experienced the run up in values that made equity-based incentives alluring to their predecessors often discount their value, said Molberger. "When times are good people love equity, but the current depressed stock values have people at lower ranks of the company no longer seeing its value, viewing equity simply as a lottery ticket," he said, noting that companies may want to rethink their pay programs as a result. "While distributing equity top to bottom across the organization is embedded in the life sciences culture, it's not currency well spent if people aren't appreciating and valuing it."

The change in market conditions is prompting some companies to adjust their compensation programs, he added. "They're doing special actions, special programs. They're going from options to restricted stock units (RSUs), because, unlike options, RSUs are worth something even if the stock price stalls or goes down."

At the same time, there's growing recognition that getting compensation right often means different things at different companies or even within a company. "What it is that incentivizes people comes down to specifics like whether we're in a small company or a big company, and the individual nature of the employee," said Aubry. "Is it options as ownership? More vacation? I've been an entrepreneur since I was 13. I'm driven by equity and being a part of the story, but when you have hundreds or thousands of employees, it's hard to figure out and deliver what each individual wants."

"The question is, how do you take the tools that you have to do something that's meaningful for executives and employees?" agreed Molberger. "If you have a population that is really tied to a mission or individuals who are really tied to a product, that needs to be the leading case that you're putting forth to those individuals to get that loyalty and that retention.

"Then, the actual monetary value is wrapped around that and supplemental to the other things that you can be doing as an organization for these individuals," he explained. "And if some employees don't understand the value proposition of equity awards, maybe that leads us down a path where the equity usage is reduced, participation levels are reduced, and it's really focused on the people who see the benefit and are willing to take on that risk."

Evaluating Alternatives

In cases where equity awards are no longer effective retention tools, companies may need to weigh alternatives, suggested Allan Shaw, CFO of Portage Biotech. "If people aren't valuing equity, maybe we should be looking at Europe as the model, where there's more of an emphasis on quality of life as opposed to standard of living. When you look at European employees, equity is not their culture. Instead, companies do things like give you a car, pay for your gas, or give you an extra month's pay toward that expense."

But compensation shifts that boost current expenses aren't always an option for early-stage life sciences companies that rely on the risk-reward equation of equity-based compensation out of necessity. "We're a startup with more equity than salary to offer folks," noted Anissa Kalinowski, CEO and cofounder of Halo Bioscience. "That European model may not be one you can follow when you don't have the car to give away."

Helping employees gain a better understanding of the potential payoff of equity-based pay may be a better bet, noted Jim Frates, CFO of Amylyx Pharmaceuticals. "Back in the day, there was a club where people talked about [what they unwittingly gave up] when they sold some of their early stock options... because they didn't know what those options would have been worth if they'd hung onto them," he noted. "So sure, everybody can make their own trade-offs, but I don't think they always make the [right] trade-offs unless they really understand what they have."

History suggests that those trading equity awards for higher base pay or other incentives today may be sacrificing significant market upside potential. "One thing I've consistently heard over my career in the life sciences industry is that executives who've been really successful and made a lot of money did so during the down periods," said McNeal. "This is when we've gotten really meaningful stock options and equity awards, because when the economy recovers, these awards will be worth vastly more than the typical annual share allocation received. So this is an opportunity to really focus the organization and communicate in a powerful way the potential boon when everything begins to turn around."

Ultimately, however, every company's situation is unique and requires a retention approach tailored to that situation. "Determining equity mix and participation rates is something you need to address on a case by case basis in the context of where you are as an organization in the lifecycle of the products you have in the pipeline," said Molberger. "There is no one-size-fits-all approach to any of this—the equity component in particular. You can't lose sight of that."

About the Authors

Matt Molberger is a managing director at Pearl Meyer. He consults primarily with companies in the life sciences and technology sectors. Matt works with clients to develop comprehensive executive compensation programs that support long-term business objectives. He specializes in pay benchmarking, incentive plan design, pay-for-performance alignment, security arrangements, and CD&A disclosure. Matt's client experience ranges from pre-IPO planning to supporting Fortune 500 companies throughout the annual compensation cycle.

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