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Implications of Glass Lewis' Updated Pay-for-Performance Methodology for Life Sciences Companies

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In July 2025, Glass Lewis announced a major update to its Pay-for-Performance (P4P) methodology, effective for the 2026 proxy season. Applicable to all Russell 3000 companies, the revised framework is positioned as an enhancement to comparability and transparency. However, it presents significant challenges for life sciences companies, especially pre-revenue companies, for which conventional financial performance metrics often fail to capture meaningful progress. Expect to see more companies flagged for misalignment of pay and performance leading to "Against" say-on-pay vote recommendations.

The significant changes are: (i) a new numerical scoring system of 0-100 vs. the prior letter grades, (ii) a longer 5-year time horizon vs. the prior 3-year lookback, (iii) a new quantitative test that will review actual pay rather than "granted" pay; (iv) addition of revenue growth as a performance metric, and (v) Glass Lewis' own new equity valuation model.

The updated quantitative framework incorporates six distinct tests that blend quantitative benchmarking, using a trailing 5-year period, with qualitative design evaluation:

1. Granted CEO Pay vs. TSR (Total Shareholder Return),
2. Granted CEO Pay vs. Financial Performance,
3. *NEW* CEO STI Payouts vs. TSR,
4. Total Granted NEO Pay vs. Financial Performance,
5. CEO CAP (Compensation Actually Paid) vs. TSR, and
6. Qualitative Assessment—a checklist of discretionary and structural pay design concerns.

Each of the first four tests relies on peer-relative comparisons using 5-year weighted averages (minimum of 3 years), and Glass Lewis has emphasized its proprietary peer group construction as the backbone of this comparative framework. Together, these tests offer a comprehensive view of how pay aligns with performance. But for companies in the life sciences sector—particularly those in early development stages—the framework presents structural mismatches.

Peer Group Selection

One of the most notable areas of concern is Glass Lewis' proprietary peer group methodology. While Glass Lewis will consider company-disclosed peers, its final peer set is based on broader industry and market screens, adjusted by size and other weighted criteria. As a result, the peer groups Glass Lewis uses for analysis will frequently diverge—sometimes significantly—from those selected by companies themselves. For life sciences issuers, this disconnect can be material. Many biotech and medtech companies select peer groups that reflect their development stage, therapeutic area or product offering, and capital structure.

Glass Lewis, by contrast, may group a small-cap clinical-stage biotech company with larger, commercial-stage or diversified healthcare companies simply because they share a GICS classification. This rigid approach is similar to ISS' own framework that creates challenges for pre-revenue companies in particular. Using an inappropriate benchmark group will likely yield meaningless pay and performance comparisons in many instances.

New Quantitative Bonus Payout vs. TSR Test

The new "CEO STI Payouts vs. TSR" test further complicates matters. It evaluates the relationship between short-term incentive payouts and TSR over a 5-year period using general market benchmarks. For companies that use structured, scorecard-based annual bonus plans—a common practice in life sciences—this test is particularly problematic. These bonus plans often emphasize input-based goals such as clinical development milestones, regulatory filings, and internal finance and operational goals. These provide direct line of sight for management teams and are critical on the path toward long-term value creation, but they may not directly correlate with total shareholder return in the short term. Moreover, bonus scorecards typically allow compensation committees the flexibility to apply discretion —sometimes upward—when unforeseen challenges (such as trial delays or regulatory shifts) affect the original targets. This discretionary element, combined with the nature of scorecard goals, can result in payout levels that appear misaligned with TSR in the eyes of external reviewers. As a result, companies that reward operational progress not yet reflected in TSR may be flagged by Glass Lewis as misaligned.

Financial Metrics

Even more problematic is the reliance on traditional financial metrics in several of the core tests. Glass Lewis uses performance indicators like revenue growth, return on equity, return on assets, EPS growth, and operating cash flow. Such metrics are largely inapplicable to pre-revenue companies where there is little predictability and consistency in these measures. The most critical financial indicator for these companies is often cash runway: how effectively management can finance the company and manage spend to sustain operations through clinical development. Yet this measure is nowhere to be found in the framework. Consequently, companies with no revenue and negative cash flow—even those executing well on their strategic plans—will score poorly on financial performance relative to peers who happen to have out-licensed products, milestone revenue, or commercial assets. This disconnect could trigger "High Concern" or even "Severe Concern" ratings, increasing the risk of a negative say-on-pay recommendation. Commercial stage biotech and medtech companies progressing toward profitability may also struggle under the model's financial comparisons.

Implications

So what can life sciences companies do in response? First, they should recognize that Glass Lewis' peer sets are not likely to change, but they can influence perception by engaging proactively through the issuer portal and offering supplemental rationale for their own peer groups. Where possible, companies should enhance proxy disclosure by outlining how their bonus goals tie directly to strategic value creation, and when discretion is used, clearly articulating the rationale.

Ultimately, the new Glass Lewis methodology underscores a continued shift in pay governance to one that favors standardized comparisons, shareholder-aligned metrics, and transparency in design and outcomes. While this can work well for mature, revenue-generating companies, it places early-stage life sciences companies in a difficult position. They must justify compensation frameworks that are fit-for-purpose but don't fit the mold. Boards and compensation committees must therefore work even harder to explain their decisions, contextualize performance, and demonstrate a clear link between pay and the long-term value creation strategies they pursue. They should consider enhanced proxy disclosure that describes the alignment between disclosed metrics and the long-term strategy, as well as thoughtful engagement with shareholders and the proxy advisors to mitigate potential concerns. We have historically found Glass Lewis to take a holistic and more pragmatic approach to its reviews of executive compensation and say-on-pay recommendations. This evolution may signal a new era for smaller, earlier-stage and pre-revenue companies.

About the Author

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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