Pearl Meyer

ARTICLE | NOV 2025

Navigating Compensation Challenges in Today's Pre-Commercial Biotechnology Sector



Terry Newth

MANAGING DIRECTOR

As 2026 approaches, many biotechnology companies will be confronting the toll that capital scarcity and market volatility have taken on their industry. Even after paring back pipelines and headcount, many companies continue to face an uncertain future and need to critically evaluate every dollar spent. Near term, this scenario impacts how boards must think about incentive funding decisions in 2025 and incentive plan designs going forward.

Outlined below are the key challenges biotech companies face today, along with practical advice for addressing both 2025 and 2026 incentive decisions. The goal is to present forward-thinking approaches for boards of directors to consider when balancing talent retention, performance motivation, and cash conservation.

The New Normal: Scarcity Meets Uncertainty

1. Capital markets have tightened dramatically. Where pre-commercial biotech companies once relied on steady infusions of public or venture funding on favorable terms, the current environment has made capital raises more dilutive and less frequent. With cash burn rates under the microscope, every dollar spent faces greater scrutiny.
2. Clinical and regulatory uncertainty has amplified. Development timelines are long, binary events drive valuation, and regulatory paths are increasingly complex. As a result, annual bonus plans based on rigid corporate milestones often fail to capture the reality of a biotech's evolving priorities throughout the year.
3. Talent markets have softened, but mobility of the key talent that drives company success remains high despite the downturn. Even with many layoffs, specialized R&D and proven C-suite talent remains in demand. Competitors continue to poach key talent, making retention through compensation strategies more critical.

Compensation Implications: Year-End 2025 Bonus Plan Funding

In the current environment, bonus plan funding decisions are crucial as they represent a material cost to the company and can have significant human resource implications. Practically speaking, it is almost universal practice that boards have complete authority to adjust (or eliminate) bonuses based on their discretion. However, boards must balance two competing truths: conserving capital is critical for survival but so is retaining an engaged and motivated workforce.

Following are alternatives for companies with significant cash constraints. Historically speaking, these alternatives have been used by few companies, but prevalence may grow this year based on the continued capital challenges. We have also seen companies employ these alternatives just for certain populations, such as the executive leadership team.

1. Eliminate bonuses. This clearly has the largest positive impact of the alternatives on a company's cash runway, but also has severe implications for employee morale, trust, and engagement. Companies taking this approach will need to communicate a clear, undeniable rationale to employees.
2. Reduce bonus funding. Companies can choose to reduce the funding on a discretionary basis to save cash. The needs of the company will dictate how severe the reduction is. Similar to number one above, communicating a clear rationale as to why the funding was reduced will be essential. If employees understand that it improves the company's ability to get to their next important milestones, they are more likely to accept such an approach.
3. Pay bonuses in equity. Paying all or a portion of the bonus in equity can help save cash as well. Awards could be immediately vested stock or stock options or could have a short vesting period. Companies exploring this option should ensure that the plan has sufficient shares to cover the awards and the stock plan allows for it. In our experience, doing this company-wide is often not viable given current valuations, but could be possible for certain populations or as a portion of bonus.
4. Retention credits. Pay out a portion of the bonus now, and a portion in cash or stock upon achievement of a subsequent milestone (e.g., financing). This has the benefit of saving current cash, while not eliminating the possibility of a true-up when the company can afford to do so.

Compensation Implications: 2026 Bonus Plan Design

Apart from decisions related to bonuses for 2025, boards must also prepare to make decisions about the key design of the 2026 bonus plan. Given the challenges that companies are experiencing, it may be prudent to introduce a gating mechanism related to cash runway. For example, if the runway is less than X, the company would not pay bonuses or proportionally reduce the funding on a 1:1 basis below that threshold.

The Board's Imperative

Compensation decisions in biotechnology are no longer mechanical exercises in market alignment—they are strategic capital allocation choices. Boards must ensure that bonus plans and pay programs support both scientific execution and organizational survival. This means taking a principled, not formulaic, approach to funding; prioritizing cash efficiency without eroding engagement; and using equity creatively to maintain alignment and retention.

Clear and effective communication remains paramount in this environment should a company decide to take measures that are not expected. Employees understand when external factors limit payouts, but only if the rationale is clear. A well-articulated narrative about how the board prioritized long-term viability over short-term rewards builds trust and credibility.

In short, the goal is not only to reward performance, but to do so sustainably in an environment where capital is as precious as discovery itself. Navigating this environment requires both discipline and creativity. Boards that view compensation as a strategic lever—not just a cost—will be better positioned to sustain talent and investor confidence through uncertainty.

About the Author

Terry leads the Life Sciences practice and advises companies from venture-backed to multinational on executive compensation strategy, incentive design, governance/disclosure, and transaction-related arrangements.

About Pearl Meyer

Pearl Meyer is the leading advisor to boards and senior management helping organizations build, develop, and reward great leadership teams that drive long-term success. Our strategy-driven compensation and leadership consulting services act as powerful catalysts for value creation and competitive advantage by addressing the critical links between people and outcomes. Our clients stand at the forefront of their industries and range from emerging high-growth, not-for-profit, and private organizations to the Fortune 500.