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Incentive Plan Design in Early-Stage Growth Companies: Navigating Goal Adjustments During the Performance Period



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Early-stage growth companies, particularly in the life sciences sector, operate in environments of constant uncertainty. Strategic priorities can shift rapidly, creating tension between governance best practices and the need for agility in incentive plan design.

Against this backdrop, most incentive plans remain anchored in an annual goal-setting process. These goals are intended to provide clarity, reinforce accountability, prioritize resources, and align management with shareholder interests. However, companies may need to make decisions during the year that impact the relevance of certain goals, raising the question of whether, and how, adjustments should be made.

This creates an inherent tension. From a governance standpoint, stability in goals is essential to maintaining credibility and trust. From an operating standpoint, rigidity can result in incentives that reward the wrong behaviors or penalize the right ones. The challenge is not simply whether goals should ever be modified during the performance period, but how to approach such decisions in a way that preserves both alignment and integrity.

Static Goals Struggle in Dynamic Environments

The traditional governance view is straightforward: once performance goals are set, they should not change. This principle exists for good reason. Incentive plans are meant to establish a clear contract between management and stakeholders. If goals can be adjusted too easily, that contract begins to lose its meaning.

Frequent or poorly justified changes can quickly erode confidence. Shareholders and proxy advisors may view adjustments as evidence of “moving the goalposts,” particularly if they appear to coincide with underperformance. Over time, this can weaken the perceived rigor

of the compensation program and diminish its motivational value internally.

However, applying this standard too rigidly in dynamic, high-growth environments can create its own set of problems.

When goals no longer reflect the company's strategic direction, continuing to measure performance against them may drive misaligned—or even counterproductive—behavior. In such cases, strict adherence to original goals may satisfy governance optics but fail the more important test of motivating individuals to achieve goals that can create shareholder value.

So how can companies balance these competing interests? The following framework outlines when adjustments should be considered—and how to execute them while maintaining fairness and rigor.

A Framework for Adjusting Goals

The integrity of an incentive plan depends on establishing clear expectations and maintaining accountability. If changes become routine, the plan risks losing both credibility and motivational value. Adjustments should be reserved for situations where:

- The original goal is no longer relevant due to a material shift in the business. This is not a question of difficulty, but of continued validity (i.e., whether the goal still represents something the company should pursue).
- Management should not reasonably be held accountable for the original outcome. Adjustments are most defensible when uncontrollable external factors have rendered the goal obsolete. When management actions contribute to the outcome, the case for adjustment is significantly weaker.
- The changes were driven or explicitly endorsed by the board. Strong board involvement reinforces governance discipline and supports the rationale for change.

Determining whether to modify goals requires evaluating strategic relevance, source of change, shareholder impact, board involvement, and timing. These factors collectively provide a framework for disciplined decision-making.

Decision Framework for Adjusting Goals

Factor	Key Question	Implication
Strategic Relevance	Does the goal remain relevant to our business and value creation?	If no, consider modification
Source of Change	External vs. management-driven?	External supports adjustment; internal requires caution
Shareholder Impact	Does change improve value alignment?	If yes, more defensible

Materiality	Is the change material enough to warrant a change to the program?	Relatively minor adjustments may create unnecessary optics issues
Board Oversight	Was change reviewed/approved?	Board involvement is required to ensure good governance
Timing	When is the adjustment occurring? Were the results still substantially unknown at the time of the decision to change?	Earlier is more defensible than late-cycle; adjustments should only be made when the goal at the time of change was still reasonably probable to occur

Any changes should focus on whether the goal itself still makes sense, not on adjusting how hard it is to achieve.

For example, if the goal was to design and test 100 kits, the question should be whether designing and testing kits is still a priority, not whether 100 is the right number to hit. Many incentive plans already include performance ranges and some flexibility, so changing the target mid-year (e.g., lowering 100 to another number) would undermine the intent of the plan. However, if the company decides to stop the project altogether, for instance, due to shifting resources, then it may be appropriate to remove that goal entirely.

Common Methods to Adjust Goals

Once a decision has been made that an adjustment is warranted, the focus shifts from *whether* to act, to *how* to implement the change in a way that preserves the integrity of the plan.

Importantly, not all adjustment approaches are created equal. The method selected should reflect both the nature of the underlying change and the company's ability to establish clear, measurable alternatives. In all cases, the objective should be to maintain a consistent level of rigor and reinforce alignment with shareholder value.

In practice, most companies rely on a limited set of approaches. Each has its place, but each also introduces different governance considerations and risks. Selecting the appropriate method requires balancing simplicity, transparency, and the ability to maintain comparability of performance expectations.

- Replacing a goal is often the most direct approach when the original objective is no longer relevant and a clear alternative exists. This preserves alignment but requires careful calibration to avoid perceptions of reduced difficulty.
- Removing a goal and reallocating its weighting is typically used when no suitable replacement exists. While simple, it can unintentionally concentrate incentives in fewer areas and shift plan balance.
- Removing the goal but not reallocating its weighting—effectively scoring the plan on a reduced denominator—is an alternative approach. Under this approach, performance is measured relative to the revised set of goals rather than the original

total weighting.
    - For example, if a plan originally included 100 points and a 10-point goal is removed, performance would be assessed based on the remaining 90 points. Achievement would therefore be expressed as a percentage of the revised total (e.g., 80 out of 90, or 88.9%), rather than the original 100-point scale.
    - This approach preserves the relative importance of the remaining goals without artificially inflating their weightings and avoids penalizing management for goals that are no longer relevant. It is often viewed as more analytically neutral than reweighting, as it avoids redistributing importance across goals that were not intended to carry additional emphasis.
- Relying on discretion to bridge the gap between original goals and evolving realities is more common in more complex situations. While discretion can provide flexibility, it is inherently less transparent and should be used carefully. Overreliance on discretion can weaken the plan's perceived objectivity and increase scrutiny from both boards and shareholders.

Across all approaches, the underlying principle remains the same: The method of adjustment should not be used to alter the level of difficulty or to protect outcomes. Instead, it should serve to realign incentives with the company's current priorities while maintaining a clear and defensible link between performance and pay.

The following chart summarizes the most common approaches, along with their typical applications and associated risks.

Methods for Adjusting Goals

Method	Description	When Appropriate	Risk
Replace Goal	Substitute with new metric	Original goal no longer relevant	Perceived reset
Remove & Reallocate	Shift weighting	No replacement exists	Overweighting
Remove & Reduce Denominator	Score based on revised total (e.g., 80/90)	Preserve relative weights	Requires explanation to stakeholders
Discretion	Adjust payouts	Complex cases	Low transparency

There are also clear situations where adjustments are generally not appropriate.

- Financial metrics are generally expected to remain fixed.
- Changes late in the performance period, or when the results are substantially known, can raise governance concerns.
- Adjustments tied to management underperformance can undermine accountability.

Conclusion: Discipline Must Meet Flexibility

The most effective companies strike a balance between governance discipline that preserves accountability and the flexibility needed to remain aligned with evolving strategy. Adjustments should be rare, well-justified, grounded in strong governance, and logical and defensible to all stakeholders. The credibility of an incentive plan depends on the rigor and integrity with which decisions are made.

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.

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