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How Biotech Companies are Scaling their Workforces for High Growth

Companies experiencing high growth need to engage in smart workforce planning and examine their compensation philosophy, culture and employee experience to stay competitive.

Note: This article is the first in a series where we explore how life sciences organizations are scaling for high growth in a variety of ways, including using analytics to uncover insights into workforce planning, designing scalable compensation programs and more.

When a company is in rapid growth mode, the HR team needs to filter its business decisions through the lens of, "How can our programs scale for anticipated growth?" For example, what compensation, benefits and perquisites programs are sustainable for expected headcount in one, three and five years? What kinds of job functions will experience the greatest headcount growth and how will the business compete in the talent market for these new jobs?

These types of questions are weighing heavily on the minds of HR leaders at emerging biotech companies these days and was the subject of lively discussion when we moderated the LEAP HR Life Sciences conference in Boston recently, and they are the same questions we are actively helping our emerging biotech clients navigate.

The market size of the biotech industry is expected to surpass $775 billion by 2024 at a compound annual growth rate of 9.9%, according to Global Market Insights. Yet, with all this growth, attracting and retaining talent in the life sciences sector has been challenging for a number of factors, including:

- A robust economic environment with unemployment at record lows in the United States;
- Increasing demand for technical skills across all industries driven by the market forces of industry convergence;
- Constant change characterized by continued high levels of M&A, stock market volatility and greater numbers of earlier stage biotech companies going public; and
- Growth of secondary hubs such as Southern California, Raleigh-Durham, Chicago and Austin that are attracting some talent away from the primary hubs of Boston and Northern California, due to a lower cost of living, a new ecosystem of strong local incubators and proximity to leading academic research centers.

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Scaling for high growth while navigating the factors mentioned above requires thoughtful workforce planning. In this paper we'll discuss some action items biotech companies need to think about as they scale their workforce for growth.

Plan for Smart Growth

What shape is your organization now and what shape will it take in the future? Do you have a pyramid with individual contributors making up the largest proportion of your workforce? As your biotech company grows, you'll need to make sure you don't become too top-heavy where you have a lot of senior leaders reviewing and executing work but not enough of the workers that actually produce the work.

Our preliminary research findings indicate that a top-heavy employee population combined with companies granting equity to broad-based employees— both common attributes among early-stage organizations— could increase the financial risk profile of a company.

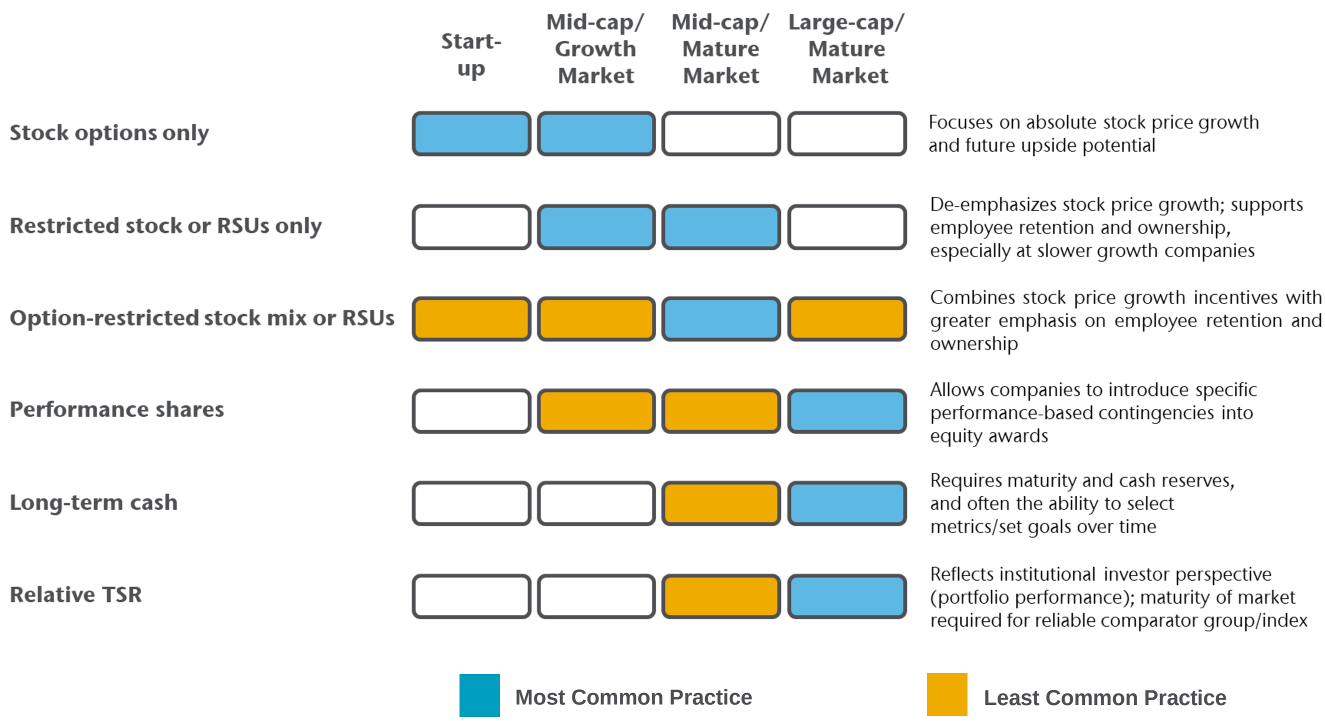
To prevent unbalanced workforce growth, you need the right checks and balances that still give the company a certain level of flexibility to hire quickly when the demand is there. For example, you could set a guideline that not more than a certain percentage of your workforce is a director level or above. You also need to ensure that the leaders you have in place now will be prepared to manage a much larger team as the company grows. This also means having systems in place to guide development for people managers to be leaders and coaches. This kind of work is an ongoing initiative.

Examine Your Compensation Philosophy

As your company evolves so should your compensation philosophy. Naturally, pay mix will change as your organization grows. For example, once a biotech launches into commercialization and starts making a profit, cash incentives might take on a larger proportion of pay mix for certain employees, and long-term incentive vehicles will tend to shift from purely stock options to include restricted stock. Figure 1 shows the progression of pay vehicles as a company matures.

Figure 1

Evolution of Equity Vehicles Based on Company Stage



Beyond the nitty gritty of compensation design, your HR team should be thinking in broader terms. Does your compensation philosophy align with your current company culture? If your company is in rapid hire mode, you may need to be more aggressive in benchmarking pay for certain key roles that are essential to growth. Have you identified what these key roles are and how hard it is to fill these roles in your regional labor market? (For more details on the top in-demand jobs at life sciences companies, please see our article *Today's Top-5 "Hot Skills" at Life Sciences Companies*.)

Many of our biotech clients tell us they need to acclimate their employees to a differentiated pay program once they reach a certain size or stage. While life sciences companies have much broader participation in equity than most other sectors, biotech firms may still need to be selective in the positions eligible for long- and short-term incentives once they reach a certain size given limited equity pools and budgets. This ensures companies are able to provide key employees with meaningful rewards.

Furthermore, biotech companies will need to differentiate pay in a meaningful way in order to attract and retain their top performers. For example, while employees at a startup may be used to a 3% merit increase, that needs to change as your organization grows. You may need to eliminate increases for your lowest performers and give the “meets expectations” performers less. This will free up cash to give top performers a more meaningful increase. This can come as a shock to employees used to receiving a standard increase each year that can be viewed more as an entitlement. Beyond merit increases, short and long-term incentives need to be differentiated both in terms of eligibility and target goals.

Align Your Culture with the Changing Business

Culture is an extension of your corporate brand and it's becoming a more important asset as well as liability in the digital age. It's also a key differentiator in attracting and retaining talent in a competitive market where compensation budgets will only get you so far.

With the proliferation of compensation and employee review websites, prospective job candidates are making their own impression of your culture before they even walk in the door for a job interview. That doesn't mean their impression of your culture is accurate— after all, most of these online data providers collect self-submitted information (and, let's face it, disgruntled employees are more likely to submit information than happy workers). However, it does mean companies need to work extra hard to protect and project the type of culture they want their organization to be known for.

Life sciences companies often have an easier time weaving together a compelling culture since the mission of the business involves enhancing people's lives. However, it's not enough to rely on the mission statement of the company because you're competing for talent with your peers that are able to say the same thing. While life sciences firms should absolutely rally employees around the greater cause of the organization, they also need to ensure their HR programs live up to the culture the company wants to foster.

Naturally culture will evolve as a company expands, especially if the company has merged with another firm or has acquired smaller businesses. It's up to the top management to set the tone for the changing culture and communicate what is and is not changing.

Create a Dynamic Employee Experience

If culture can be considered the bread that holds a sandwich together, then the employee experience would be the filling. You need bread (i.e. culture) to hold your programs together, but equally important is what substance lies beneath your culture or brand. Your culture should attract people to your organization and they will want to stay for the employee experience.

The employee experience begins with the on-boarding process and never stops. High-growth biotech companies can, and should, keep a laser focus on career development and engagement for employees. This can include internal mobility and cross-functional opportunities, assignments to special projects, career lattice structures (where an employee might take a horizontal move because they don't want to step into the traditional step up in management) and traditional ladder structures.

Next Steps

When your company is in high-growth mode you need to be smart about how you grow. Establishing boundaries around what job function and job level distribution is ideal will allow your business to ensure growth is sustainable. At the same time, being able to attract talent in an increasingly crowded field where the labor market is tight requires your company to examine your compensation philosophy, culture and employee experience to ensure you are competitive with your peers and can have a compelling story to attract new employees and retain your top performers.

If you have questions about rewards and talent programs in the life sciences sector and want to speak with a member of our compensation consulting group, please write to consulting@radford.com.

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