

ClearBridge

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5 Ways to Streamline Compensation
Committee Processes





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Introduction

Compensation Committees are being tasked with ever-expanding responsibilities, including overseeing executive pay levels and incentive plans, broader human capital initiatives, engagement with shareholders and proxy advisory firms, and increasing regulatory requirements – and the list is likely to keep growing!

While fulfilling these responsibilities may resemble a full-time job, there are many ways Committees can optimize and “automate” processes to ensure tasks are completed efficiently without sacrificing the company’s business and compensation objectives. This article outlines 5 practical steps Committees can take to improve efficiency and streamline their process.



1. Establish a Compensation Committee Calendar

- A structured calendar is a very simple yet effective tool for ensuring smooth Committee processes
- A well-defined calendar should include key dates for meetings, routine agenda items, and any new / one-time expected agenda items for the upcoming year
- Creating a standard annual cadence prevents last-minute scrambles in meeting prep or execution



2. Set Standard Grant and Vesting Timing Policies

- Many companies handle equity grants on an ad hoc basis, leading to accounting and administrative complexities in tracking various grant and vesting dates
- Establishing fixed grant and vesting schedules (such as specific annual grant dates and quarterly / monthly off-cycle grant dates) eliminates the need for ad hoc grant timing decisions, which simplifies administration and mitigates potential scrutiny over grant timing changes

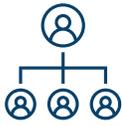


3. Define New Hire Equity and Bonus Participation Policies

- Standardizing equity grant and bonus eligibility guidelines (e.g., a cutoff date for new hires to participate in annual bonus or equity programs) ensures consistency in treatment of new hires / promotions
 - For example, guidelines may determine eligibility and proration approach (e.g., if joining in Q1, receive full grant and full bonus eligibility, but for each quarter thereafter prorate opportunity by 25%)
- Establishing a fixed approach can reduce negotiation of treatment with potential new hires



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4. Delegate Equity Pool Administration to the CEO (Within Limits)

- To avoid burdening the Committee with frequent equity grant approvals for lower or mid-level hires, consider delegating limited authority to the CEO to approve equity awards within a pre-set pool
- This allows for faster hiring decisions while maintaining Committee oversight for executive-level grants
- The pool often excludes executive officers, sets individual and total grant limits, and outlines the types of vehicles and vesting provisions permissible
- Once established, Committee can be provided with periodic updates on use of delegated authority



5. Adopt a Pre-Determined Adjustment Policy for Equity and Incentive Awards

- When financial results are impacted by extraordinary events (e.g., accounting restatements, legal settlements, M&A, etc.), disputes may arise over whether to adjust incentive plans (and by how much)
- A pre-defined adjustment policy clarifies when and how adjustments may be made, ensuring consistency and avoiding after-the-fact debates
- This approach also helps mitigate shareholder scrutiny (to a certain degree) by relying on a pre-determined and objective policy, rather than one-off decisions

Final Thoughts

Compensation Committees already have plenty on their plate, and the scope of their duties will likely continue to grow. Identifying opportunities to create efficiencies in compensation and administrative processes can improve Committees' effectiveness, further helping companies achieve their business and compensation objectives. Small process improvements today can lead to major long-term efficiencies, freeing up the Committee to focus on more important strategic matters.



At ClearBridge Compensation Group, we partner with boards and leadership teams to design and implement customized compensation programs that balance strategic priorities, competitive positioning, and stakeholder expectations. Our deep expertise ensures that your incentive plans not only meet today's challenges but also position your organization for long-term success.

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