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Director Compensation, ESG Integration, and Corporate Governance: A Case Study of McDonald's

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Abstract. The role of the directors' remuneration system in the corporate governance structure has become increasingly prominent as companies focus on long-term strategic development and sustainable governance. Using McDonald's Corporation as a case study, this paper examines the reflection of its director compensation system in incentive and constraint mechanisms, strategic goal alignment and ESG (environmental, social and governance) performance orientation. The results of the study show that McDonald's director compensation system is mainly characterised by a clear structure and long-term incentives, with approximately 70% of the compensation in restricted stock units, reinforcing the binding relationship between directors and the long-term interests of the company. The company has gradually introduced ESG performance indicators in recent years, linking 20 per cent of equity incentives to non-financial targets, demonstrating a high awareness of sustainable governance. At the same time, it outperforms its peers in terms of pay transparency, director shareholding requirements and strategic alignment. However, there are still problems such as insufficient quantification of ESG objectives, subjectivity in performance assessment and lack of flexibility in shareholding rules. The study concludes that the McDonald's director compensation system is effective in strengthening corporate governance and raising directors' awareness of their responsibilities, but it needs to further improve the system's scientificity and adaptability to adapt to the changes in the external environment and the diversified demands of investors.

Keywords: Director Compensation, Corporate Governance, Long-term Incentives, ESG Performance

1. Introduction

Directors' remuneration, as a key element of corporate governance, has a direct impact on the company's business strategy, shareholders' interests and its long-term development. With the advancement of globalisation and the increasing standardisation of corporate governance, the design and adjustment of directors' remuneration systems have become an important topic of discussion between companies, investors and regulators. In particular, the construction and adjustment of the directors' remuneration system of leading global companies such as McDonald's not only reflects the company's strategic objectives, but also demonstrates its position in the competitive market and the importance it attaches to sustainable development.

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The design of McDonald's directors' remuneration system has important theoretical and practical significance in safeguarding shareholders' interests, incentivising directors' long-term decision-making and promoting sustainable corporate development. The study of McDonald's directors' remuneration structure can provide a concrete case study for academics, as well as a valuable reference for policy makers, corporate managers and investors in corporate governance-related fields. In addition, this study helps to explore in depth the relationship between pay structure, performance incentives and directors' responsibilities, revealing how firms can achieve strategic objectives and maximise shareholder value through the pay system.

This study focuses on the following questions. It examines the key features of McDonald's directors' remuneration structure. It explores how McDonald's compensation structure aligned with its long-term strategic goals, corporate governance and shareholder value. It also investigates the role of Environmental, Social and Governance (ESG) performance incentives introduced by McDonald's in compensation design. Furthermore, the study assesses the strengths and weaknesses of McDonald's director compensation system compared to peer companies.

The purpose of this study is to examine how McDonald's maximises shareholder value by analysing the composition, changes and adjustments to its directors' remuneration structure, and to assess its effectiveness in driving long-term strategic and sustainable growth. The uniqueness and competitiveness of McDonald's compensation system is further assessed by comparing it to peer companies such as Coca-Cola, Procter & Gamble and Nike.

This paper firstly introduces the basic components of McDonald's directors' remuneration system, and then analyses its pay adjustment mechanism and its relationship with the company's strategy. Next, a comparative analysis of the compensation structure is carried out in relation to peer companies, and finally, recommendations for improvement are made and the results of the study are summarised.

2. Analysis of the remuneration structure of McDonald's directors

The design of McDonald's directors' remuneration system reflects the company's high standards of corporate governance, particularly with respect to long-term value creation and alignment of shareholder interests. The remuneration structure, through a combination of cash and equity incentives, ensures that directors receive both a stable income and a share of the rewards of the company's long-term growth as they execute the company's strategy.

2.1. Overview of remuneration components

The pay structure for McDonald's directors is clear and easy to understand, and it mainly focuses on long-term benefits. Their pay has two main parts: fixed cash pay and equity rewards. This shows that McDonald's cares about good company rules. It also shows that the company believes its directors can bring value. The Notice of 2024 Annual General Meeting and Proxy Statement says McDonald's pay system for directors is very strong and well set up in the industry [1].

First, in the cash part, each non-employee director gets a base cash fee of $125,000 per year [1]. And for directors who have special roles on the board, McDonald's gives more pay for their work: $200,000 more each year for board chairs and up to $25,000 for committee chairs [1]. This clear and step-by-step pay plan shows that the company sees the different jobs directors have. Instead of offering additional fees for attending meetings, McDonald's adopts a simplified approach, which helps to maintain clarity and avoid unnecessary complexity.

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Second, McDonald's director pay mostly uses stock rewards. About 70% of the total pay is given as restricted stock units (RSUs). These match what directors want with long-term gains for shareholders [1]. Directors get RSUs worth $175,000 each year. They fully get them after one year. New directors get a one-time RSU reward of $250,000. They fully get this after three years [1]. This setup gives rewards for staying longer and helps bring in good people.

This stock-based pay plan makes sure directors and shareholders want the same things. It also helps directors care about the company's long-term growth and value.

2.2. Shareholding requirements and benefit binding mechanisms

One main part of McDonald's pay system for directors is the rule that they must own company stock. This makes sure directors care about what is good for shareholders over time. The 2024 Annual General Meeting and Proxy Statement says directors must own stock worth at least five times their yearly pay [1]. This rule helps directors think more about the company's future, not just short-term gains, by linking their own pay with how well the company does.

Also, McDonald's does not let directors hedge or pledge their shares. This rule helps keep the goals of directors and shareholders the same [2]. In 2022, McDonald's added a rule that 20% of the directors' pay would depend on how well they do in areas like the environment, social actions, and how the company is run [1]. McDonald's uses strong stock rules and steps that connect directors with shareholders to help make sure directors focus on the company's future [3].

2.3. Integration of ESG performance metrics into director compensation

In recent years, McDonald's has slowly added ESG performance goals into how it pays its directors. This is to help the company grow in a way that lasts a long time. The 2025 Notice of Annual Meeting of Shareholders and Proxy Statement says McDonald's added a "Strategic Scorecard" in its 2024 director pay plan. This scorecard checks how well top managers follow the company's values and long-term plans. It looks at results that are not about money [1].

McDonald's said in its Annual Objectives and Impact Report 2023-2024 that the Corporate Responsibility Committee, which is part of the Board of Directors, handles ESG issues. This group makes sure the company gets better at protecting the environment, helping people, and being clear about how it is run [4]. These changes make directors more responsible for reaching long-term goals and meeting what investors want for social responsibility.

These steps show McDonald's cares about social responsibility and the environment. They also show the company is planning for the future. ESG goals are now part of director pay. They focus on things like cutting carbon, helping workers, and being fair in the supply chain. This helps people see more clearly how the company is run and answers what investors care about in social actions [4].

McDonald's ESG pay for directors is still small when compared to other companies. This step shows McDonald's wants to follow its plan for a better and more responsible future. In today's world, where the environment and social issues are big problems, McDonald's has made its directors feel more responsible for following long-term plans [1,4].

2.4. Pay adjustments and changes

McDonald's directors' pay is not always the same. It changes based on how the company is doing, what is happening in the market, and what goals the company wants to reach. In the past few years, McDonald's made some changes to how it pays directors. It gave more focus to long-term rewards.

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It added RSUs and linked pay to ESG performance. These changes help the pay system support the company's long-term plan for growth [1]. These changes also help directors work toward goals like caring for the environment and helping people.

McDonald's changes directors' pay in time to match pay levels in the market. This helps the company stay attractive to top leaders. The report from the Annual General Meeting says McDonald's looks at pay data from other companies. This makes sure its pay plan is fair and strong enough to keep and bring in good directors and managers [1,2].

3. Comparative analysis of peer companies

3.1. Pay structure: cash and stock ratio

About 70% of McDonald's director pay comes from RSUs. The rest is fixed cash pay. This setup focuses on long-term rewards and shows that the company wants directors to help reach long-term goals. PepsiCo gives about half of director pay in cash and half in stock. Stock makes up about 50% [5]. Coca-Cola gives more in cash and less in stock [6]. At Nike, stock makes up about 40% of director pay [7]. This shows McDonald's puts more weight on stock rewards to keep directors' goals in line with the long-term goals of shareholders.

3.2. Performance rewards: mix of money and non-money goals

McDonald's has added ESG goals to how it pays directors in the past few years. About 20% of stock-based rewards are tied to ESG goals [4]. This is not common among other companies. Companies like Coca-Cola and PepsiCo mostly link director pay to money-based goals like profit and revenue growth [5,6]. Nike uses different kinds of goals, both money-based and non-money-based, to judge how directors are doing [7]. McDonald's way shows it is trying to support company responsibility and long-term planning.

3.3. Stock holding rules: making directors more responsible

McDonald's asks directors to own at least five times their yearly pay in company stock. This rule is stricter than what most other companies have. At PepsiCo and Coca-Cola, directors usually need to own about three times their yearly pay in stock [5,6]. Nike asks directors to own four times their yearly pay [7]. This strict rule helps McDonald's make sure directors focus on the company's future and take their job more seriously.

3.4. Transparency in governance: comprehensiveness of information disclosure

McDonald's shares a lot of details about director pay. It shows how pay is made up, what rewards are given, and how ESG goals are part of pay in the Notice of Annual General Meeting and Proxy Statement [4]. PepsiCo and Coca-Cola share less. They mostly show the total pay and the basic parts of the pay plan [5,6].

Nike, on the other hand, includes in its disclosure of directors' remuneration information the specifics and achievement of performance indicators in addition to the total amount and structure of remuneration [7]. McDonald's practices reflect its high standards of corporate governance and accountability to shareholders.

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4. Assessment and discussion - system strengths and potential improvements

4.1. Analysis of institutional strengths

4.1.1. Effectiveness of long-term incentives

McDonald's director compensation system emphasises long-term incentives, with approximately 70% of compensation paid out through RSUs, which are designed to tie directors' interests closely to the long-term performance of the company. According to the 2025 Proxy Statement, 92% of McDonald's CEO's target total compensation is performance-based, compared to 84% for other executives [8]. This design helps to incentivise directors to focus on the long-term development of the company and shareholder value.

4.1.2. Integration of ESG performance indicators

McDonald's has introduced ESG performance metrics into its compensation system, reflecting its focus on sustainability. For example, companies incorporate non-financial goals such as reducing greenhouse gas emissions and gender pay equity into performance evaluations as part of the basis for granting equity incentives [8]. This design not only reinforces social responsibility, but also meets global investor expectations for corporate sustainability.

4.1.3. Remuneration transparency and shareholder communication

McDonald's is highly transparent in its disclosure of remuneration information, with the remuneration report detailing the composition of directors' remuneration, performance indicators, and forms of equity incentives. The company also fully explains to shareholders the logic behind the development of the remuneration policy through the annual Proxy Statement, which helps to enhance governance openness and accountability [8].

4.2. Potential directions for improvement

4.2.1. Operationalisation and quantification of ESG indicators

While McDonald's integrates ESG metrics in compensation, there is currently room for improvement in the operationalisation and measurability of these metrics. According to the latest research by The Conference Board, although 77.2% of S&P 500 companies have included ESG in their incentive appraisals in 2024, only some of them have set clear quantitative targets, and the performance assessment process is still highly subjective [8]. McDonald's is facing a similar problem. In the future, consideration could be given to introducing a more scientific measurement system, such as an environmental or diversity score based on third-party certification.

4.2.2. Flexibility to adapt to external changes

In recent years, ESG incentives have faced some public opinion and policy backlash stateside. For example, Starbucks announced the elimination of diversity and inclusion requirements tied to executive compensation in 2024 [9]. This trend serves as a reminder that McDonald's should enhance the system's resilience and early warning mechanisms to make timely adjustments to its

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compensation strategy in the event of changes in the market or regulatory environment without compromising its governance objectives.

4.2.3. Proportionality of directors' shareholding requirements

McDonald's requires directors to hold shares in the company worth no less than five times their annual salary, a higher standard than most industry peers. While the system reinforces directors' accountability and alignment with shareholders' positions, it may also put pressure on director liquidity. In practice, some companies have adopted a more lenient 'rolling period to meet the standard' strategy, or provide more diversified ways of shareholding, McDonald's can be based on this to optimise the existing system, to improve the flexibility and attractiveness of the system [8].

4.3. Assessment of the impact of institutions on corporate governance

McDonald's director compensation system has a positive effect in strengthening corporate governance. The high proportion of equity incentives effectively enhances the directors' alignment with the Company's long-term strategy and their focus on shareholders' interests. In addition, the high degree of transparency of the system improves the efficiency of corporate accountability and helps to consolidate investor trust. However, there are potential problems with the system, such as large pay gaps or governance concerns that may trigger employee morale fluctuations [10].

5. Conclusion

Through an in-depth study of McDonald's director compensation system, this paper finds that its compensation structure is highly prescriptive and strategically orientated. McDonald's has adopted a dual structure of 'cash and equity', with restricted share units at the centre, and approximately 70 per cent of remuneration is used for long-term incentives, effectively tying the interests of directors to the long-term performance of the company. At the same time, the company has introduced ESG performance targets, with 20 per cent of equity incentives already linked to environmental, social and governance metrics, demonstrating McDonald's proactive stance in promoting sustainability.

Comparisons with peer companies such as Coca-Cola, PepsiCo and Nike show that McDonald's has a clear advantage in terms of director shareholding requirements, transparency of disclosure and governance accountability constraints. However, the study also points out that there is room for improvement in the following areas of McDonald's current compensation system: firstly, ESG performance indicators lack operability and quantitative standards, leading to a high degree of subjectivity in the assessment results; secondly, the relative rigidity of the regulations on the proportion of directors' shareholdings may limit the mobility and attractiveness of directors; in addition, changes in external policies and market environments may have an impact on the remuneration strategy, and the resilience of the current system to respond to these changes is not yet sound.

Based on the above findings, this paper suggests that McDonald's further improve the quantitative system of ESG indicators, introduce third-party evaluation standards, and enhance the scientific nature of performance evaluation; at the same time, McDonald's should optimise its director shareholding policy, and appropriately introduce the mechanism of 'transition period' to improve the flexibility and attractiveness of the system.

This study is of practical significance for understanding how multinational corporations achieve their strategic objectives and sustainable governance through remuneration mechanisms, and

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provides institutional references for similar firms. However, this paper is still limited by the fact that the data is mainly derived from public information such as annual reports and Proxy Statements, and lacks an in-depth investigation of internal enforcement mechanisms. Future research can combine empirical data and executive interviews to further explore the actual effects of incentive mechanisms and the integration path of multiple performance indicators.

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