

Integrating ESG Metrics into Executive Compensation

Resolved

Shareholders of McDonald's Corporation ("McDonald's") urge the Board of Directors to examine and report to shareholders, at reasonable cost and omitting proprietary information, describing if, and how, it plans to integrate ESG metrics into the performance measures of named executive officers under the McDonald's incentive compensation plans. "ESG metrics" is defined as how environmental, social, and governance considerations, and related financial impacts, are integrated into corporate strategy over the long term.

Supporting Statement

Strong management of ESG risks has a positive effect on long-term shareholder value, value creation, and sustainability. Conversely, failure to adequately manage and disclose performance on ESG issues can pose regulatory, legal, reputational, and financial risks to a company.

Investors are increasingly calling for improved corporate disclosure of performance on material ESG issues. According to the 2019 UN Global Compact CEO Study, 84% of executives from the world's largest companies cited a clear link between sustainability and business value.

Additionally, that study found 66% of CEOs would agree to have their compensation linked to sustainability performance. A recent Mercer survey of 135 U.S. and Canadian companies found 30% of respondents use ESG metrics in their incentive compensation plans and 21% are considering incorporating metrics.

Effectively managing ESG issues offers positive opportunities for companies. By integrating ESG metrics into executive compensation, companies can reduce risks related to ESG underperformance by incentivizing executives to meet sustainability goals, thereby achieving greater long-term value for shareholders.

The Sustainability Accounting Standards Board identifies various material ESG issues at McDonald's, including energy management, water management, food and packaging waste management, food safety, nutritional content, labor practices, and supply chain management and food sourcing. While McDonald's has taken various steps to address some of these issues, significant problems remain, including:

- Problematic workplace culture that contributed to the termination of its former CEO.¹
- Criticized response to the COVID-19 pandemic, leading to complaints and employee protests.²
- Legal complaints over alleged sexual harassment, and alleged gender and racial discrimination at both corporate and franchise levels.³

¹ <https://www.wsj.com/articles/mcdonalds-looks-beyond-party-culture-11578243600>

² <https://www.restaurantdive.com/news/mcdonalds-franchisees-face-more-covid-19-osha-complaints/588262/>; <https://publicintegrity.org/inequality-poverty-opportunity/workers-rights/deny-paid-sick-leave-workers-coronavirus-pandemic-mcdonalds/>

³ <https://time.com/5725058/mcdonalds-sexual-harassment-lawsuit>; <https://www.wsj.com/articles/former-black-franchisees-sue-mcdonalds-alleging-discrimination-11598963169>; <https://www.barrons.com/articles/mcdonalds->

- Concerning labor management practices, including allegations and lawsuits related to hour and wage violations, and intimidation and/or termination over employee involvement in union organizing.⁴
- Lagging behind its peers in implementing best practices related to animal welfare.⁵

Shareholders have voiced concern regarding compensation practices through its most recent advisory vote on executive compensation, which received considerably lower support than in previous years.

The COVID-19 pandemic and the struggle for racial equity have illustrated the importance of ESG issues and their impact on companies. By integrating ESG metrics into executive compensation incentive plans, McDonald's could incentivize its executives to improve ESG performance, thereby addressing risks and achieving greater long-term value for shareowners.

[sexual-harassment-complaints-labor-unions-oecd-51589819766;
https://www.usatoday.com/story/money/business/2020/05/19/coronavirus-mcdonalds-employees-national-strike-over-safety/5218729002/](https://www.usatoday.com/story/money/business/2020/05/19/coronavirus-mcdonalds-employees-national-strike-over-safety/5218729002/)

⁴ <https://www.businessinsider.com/mcdonalds-worker-whistleblower-covid-safety-protest-2020-10;>
<https://news.bloomberglaw.com/daily-labor-report/mcdonalds-settles-wage-and-hour-class-action-for-26-million>

⁵ <https://www.bloomberg.com/news/articles/2018-09-21/mcdonald-s-gets-a-warning-from-new-york-s-pension-fund-over-chickens>