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Alignment of Nike's Directors 'Remuneration Structure with Shareholders' Interests

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Abstract. This study investigates the alignment between Nike Inc.'s board compensation structure and shareholder interests. Based on DEF 14A filings, annual reports, and relevant literature, the paper examines compensation composition, equity ownership policies, and long-term incentive plans. Findings show that while Nike uses restricted stock units (RSUs) and stockholding requirements to partially align interests, improvements are needed. Current incentives lack direct ties to strategic performance indicators such as innovation, ESG, and global expansion. Performance evaluations remain largely subjective, and stock ownership thresholds could be strengthened. Advanced governance mechanisms like clawback provisions and multi-dimensional performance hurdles are absent. The study proposes adopting performance stock units (PSUs), quantitative director evaluations, stricter stockholding policies, and benchmarking industry best practices to enhance governance transparency, risk management, and long-term strategic focus, contributing to sustained shareholder value.

Keywords: Remuneration System Equity, Long-term incentives, Performance Appraisal, Evaluation System.

1. Introduction

In the context of the continuous improvement of the corporate governance system, the rational design of the director compensation system is of great significance to the coordination of corporate governance efficiency and shareholders' interests. This paper takes Nike Inc. as the research object, and systematically analyses the extent to which its director's remuneration structure is realised in alignment with shareholders' interests [1]. Based on DEF 14A documents, annual reports and related literature, the ratio of fixed pay to incentive pay, shareholding policy and long-term incentive plan (LTIP) in its remuneration structure are evaluated [2]. The results of the study show that Nike has achieved a certain degree of alignment between management incentives and shareholder value enhancement through mechanisms such as linking stock awards to the company's share price, which helps directors focus on the company's long-term strategic development. However, there is still room for optimising the current incentive structure in terms of performance evaluation indicators, incentive coverage and transparency of information disclosure. The study finally proposes to improve the performance evaluation system and strengthen the transparency of information

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disclosure to enhance governance effectiveness and market trust, and provide reference and lessons for the remuneration governance of related companies.

2. Company case introduction

2.1. Company profile

Founded in 1964 and headquartered in Oregon, USA, Nike Inc. is the world's leading manufacturer of athletic footwear, apparel and sports accessories. Its products cover a wide range of categories such as sports shoes, apparel and accessories, and serve both professional athletes and consumers. As of 2023, Nike has opened more than 1,000 directly-managed shops globally and has diversified its revenue through brand licensing, e-commerce platforms and other channels. Its strong brand value, product innovation ability and market strategy have built up its core competitive advantage in the global sporting goods market [1].

2.2. Board structure and corporate governance

Nike's Board of Directors currently consists of 13 members, the majority of whom are independent, a structure that is consistent with modern corporate governance best practices and enhances the Board's independence and ability to oversee and strengthen the checks and balances on management's behavior [2]. The Board of Directors has established key governance committees, including the Audit Committee, Compensation Committee, and Corporate Governance and Nominating Committee, which are responsible for overseeing the company's financial reporting process, management incentives and compensation system, director nominations, and corporate governance structure, to ensure transparency, fairness, and compliance in the company's operations [2].

Nike strictly adheres to the relevant norms and requirements of the New York Stock Exchange (NYSE) for the governance of publicly listed companies, including director independence, information disclosure, internal control, and protection of shareholders' rights. At the same time, the company proactively communicates its latest policies and practices on corporate governance, director compensation, sustainable development and corporate responsibility to external investors and stakeholders through regular annual shareholders' meetings and DEF 14A reports disclosed in the U.S. Securities and Exchange Commission (SEC), to enhance corporate transparency and investor trust. The well-established governance structure provides a solid guarantee for Nike to maintain its global brand leadership and realise long-term value creation.

2.3. Overview of directors' remuneration

The remuneration structure for Nike's non-executive directors is designed to balance incentives with oversight responsibilities and to ensure that the directors are able to maintain their independence in the performance of their duties while remaining aligned with the company's long-term growth objectives. The remuneration structure consists of two main components: fixed annual remuneration and restricted share units (RSUs). The fixed salary component is $100,000 per year, which compensates directors for their contributions to corporate governance, strategic direction, and engagement efforts [2].

Restricted Stock Units (RSUs), a significant component of variable compensation, is approximately $200,000 per year per non-executive director in RSU grants, representing nearly two-thirds of a director's total compensation [2]. This component of remuneration is directly linked to the performance of the company's share price, reinforcing the alignment of interests between directors and shareholders. RSUs are usually subject to a vesting period, which encourages directors to focus on the company's long-term development and sustainable growth, thereby driving enterprise value.

In addition, although the Long-Term Incentive Plan (LTIP) is mainly for the company's senior management, usually in the form of Performance Share Units (PSUs), the number of grants is decided based on specific financial or market performance indicators, and the non-executive directors do not participate in the plan to protect their decision-making process from short-term performance fluctuations and to maintain the objectivity and fairness of the governance [2]. Moreover, in order to further enhance the relationship between the directors and shareholders, the directors and shareholders should be aware of the importance of the long-term development and sustainable growth of the company.

And in order to further enhance the risk-sharing mechanism between directors and shareholders, Nike stipulates that all directors must hold shares of the company equivalent to more than five times their annual salary during their term of office [2]. This shareholding requirement not only reflects the company's emphasis on the long-term commitment of directors, but also ensures that directors pay more attention to the long-term performance and sustainable development of the company when exercising their duties, and avoid excessive focus on short-term returns. This remuneration and shareholding arrangement reflects Nike's maturity and standardisation of board governance, and also supports healthy corporate development and investor confidence.

3. Consistency analysis of compensation structure and shareholder interests

3.1. Compensation structure and incentive ratio

Nike's director compensation system is mainly composed of two major components: cash compensation and equity incentives, of which the equity incentive component (mainly restricted stock units, RSUs) accounts for more than 65%, fully reflecting the company's emphasis on long-term incentives for directors [2]. This remuneration structure not only helps to tie directors' interests closely to the company's long-term shareholder returns, but also meets the requirements of the best practice of modern corporate governance, i.e., the shareholding mechanism allows directors to bear a certain amount of market volatility risk, thus enhancing their initiative and responsibility in supervising and managing and providing strategic guidance. It can be said that this structure, on the one hand, enhances the directors' attention to the company's long-term development goals and promotes their more effective participation in key governance matters, such as review of executive compensation, strategic direction control and major risk control; on the other hand, it also helps to attract high-quality independent directors with professional backgrounds and industry experience to join the board of directors of Nike.

However, the current RSUs earned by Nike directors mainly adopt a time-linear vesting mechanism, i.e., they are unlocked in instalments according to the number of years of service, and automatically vest after a certain number of years of tenure without the need to satisfy specific company performance conditions [2]. This design, while safeguarding the basic incentives of directors, may weaken their sensitivity to changes in the company's short- or medium-term business performance. Since directors are not directly involved in the day-to-day operations of the company, their immediate feedback mechanism on financial metrics, strategy execution or market performance is weak, and over-reliance on this mechanism may reduce their motivation when the firm faces performance challenges.

3.2. Long-term incentives and performance indicator setting

Unlike senior management, the main form of equity incentives received by Nike's directors are restricted stock units (RSUs) rather than performance stock units (PSUs) [2]. RSUs typically vest over a set period of time and do not have assessment thresholds based on financial or market performance, and while this approach ensures that directors' interests are aligned with the company's long-term stock price movements during their tenure, the lack of clear performance appraisal conditions, its role in driving directors to proactively create shareholder value is relatively limited.

At the same time, while this design can help to safeguard director independence and long-term focus, the incentive effectiveness of the RSU mechanism has been challenged in the current context of corporate governance, which increasingly emphasises performance-orientation, strategic guidance and sustainable growth. In contrast, some leading companies with more mature governance, such as Apple Inc., have directly linked some of the directors' equity incentives to key performance indicators, such as Total Shareholder Return (TSR) or Return on Invested Capital (ROIC) [3]. These types of indicators not only reflect the company's ability to create value and the efficiency of the use of capital, but also more in line with the core expectations of investors on the effectiveness of the board's responsibility.

If Nike can learn from the practice of these companies, the appropriate introduction of performance-related incentives, not only can enhance the sensitivity of the directors on the implementation of short- and medium-term corporate strategy, but also help to stimulate their role in monitoring and guiding the process of major business decisions, risk management and corporate transformation. Such an adjustment is expected to further enhance the governance value of the Board of Directors as a strategic advisor and a mechanism of checks and balances, and to promote Nike to achieve more resilient and sustainable growth in the highly competitive global market.

3.3. Equity holding requirements

Nike has set strict shareholding requirements for non-executive directors, explicitly stipulating that they must hold no less than five times the value of their annual salary in the company's shares [2]. This system reflects the company's high regard for interest binding and long-term incentives at the board governance level, aiming to improve the financial sensitivity of individual directors to the company's share price performance, prompting them to pay more attention to the sustainable development of the enterprise and the long-term return of shareholders, thus effectively curbing the short-sightedness of directors in the face of market volatility or the tendency of conservative decision-making.

This approach not only helps to bind the interests of directors with other long-term stakeholders of the company in depth, but also strengthens the directors' awareness of their responsibility for the strategic direction of the company, risk control and evaluation of the performance of the executives in the course of discharging their duties. By increasing their personal ownership of the company's stock, directors have a greater incentive to take a long-term view when making key governance decisions, and avoid catering to short-term market sentiment or fighting volatility to make judgements that are detrimental to the future development of the business.

According to the information disclosed in Nike's DEF 14A filing with the U.S. Securities and Exchange Commission (SEC) in 2022, the majority of current non-executive directors have not only met this minimum shareholding requirement, but have even significantly exceeded the baseline of five times their annual salary [2]. This indicates that the company's governance policy is well implemented and has created a high compliance culture and long-term value recognition among the

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director group. This stable director shareholding structure also enhances to some extent the confidence of external investors in Nike's governance stability and board independence and impartiality, and enhances the company's reputation and transparency in the capital market.

Overall, Nike's director shareholding policy is not only an incentive mechanism, but also a kind of institutionalised governance arrangement, which strengthens the board's constraints and long-term orientation in the corporate governance system, and provides a systematic guarantee for the company to achieve sustainable growth, sound operation and strategic consistency.

3.4. Information disclosure and internal evaluation mechanisms

Nike's annual DEF 14A filing with the SEC provides exhaustive disclosure of how directors' remuneration is constituted, the basis of payment, and when it is awarded [2]. This highly transparent disclosure reflects the company's high regard for governance norms. However, in terms of the assessment of individual director performance, it is still based on qualitative assessment and lacks a clear system of scoring indicators.

4. Suggestions for optimizing the remuneration structure of Nike's directors

4.1. Strengthen the alignment between long-term incentives and the company's strategic goals

According to the above survey, Nike can further explore the introduction of performance-based stock incentives that are highly aligned with the company's medium- and long-term development goals, in addition to the existing restricted stock units (RSUs) issuance mechanism. And this type of incentive mechanism should be reasonably set up with the key strategic direction of the performance assessment indicators, such as the progress of core technology research and development and innovation capabilities. These indicators not only reflect the overall competitiveness of the enterprise beyond financial, but also reflect its strategic focus on sustainable development, globalisation and technological leadership.

For example, equity awards are linked to Nike's improvements in ESG dimensions such as green transformation of supply chain and labour rights protection, which can help enhance the company's social responsibility image and governance rating among global investors; while performance targets linked to the percentage of sales of innovative products can motivate directors to supervise and guide the company's efforts in internationalisation and technological innovation.

4.2. Establish a more quantitative performance evaluation system

Nike's current director performance evaluation is mainly subjective and lacks a systematic quantitative framework, which affects the effectiveness of performance feedback and incentives. It is recommended to establish a ‘board of directors comprehensive rating model’, introducing indicators such as compliance with the charter, meeting participation, contribution to the performance of duties, continuous learning, and combining internal records and external assessment to form an objective rating. The scoring results can be linked to the change of remuneration to strengthen incentives and accountability, and encourage directors to improve the quality of their duties and the effectiveness of their supervision. In addition, the establishment of a comprehensive scoring mechanism can help optimise the director structure and talent pool. The company can use this as a basis for identifying high-performing board members or those who need to be improved, and provide a basis for subsequent nomination and rotation, so as to achieve the continuous

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improvement of the overall capacity of the board of directors. This initiative will help Nike build a more efficient, transparent and professional board governance system.

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4.3. Raising equity ownership thresholds and buyback constraints

Nike has currently set a threshold for non-executive directors to hold no less than five times their annual salary in company stock, which has a certain binding effect and governance, but there is still room for further optimisation in the context of the current rising global corporate governance standards. It is suggested that Nike refer to Procter & Gamble's practice of adjusting directors' shareholding requirement to 6 to 7 times of their annual salary [4]. This adjustment can not only further deepen the interest binding between directors and the company's long-term performance, but also significantly enhance their sense of responsibility and robustness in the face of strategic choices and external risks in the course of their duties.

Meanwhile, in order to further strengthen the long-term value orientation of directors, it is recommended to introduce a more binding share lock-up period or repurchase restriction mechanism in addition to the shareholding requirement. Specifically, it can be stipulated that the company's shares (especially restricted stock units RSUs) acquired by a director during his/her term of office cannot be sold within a certain period of time, or a shareholding lock-up period can be set for a few years even after the director has left his/her office, so as to prevent him/her from cashing out early due to short-term market fluctuations, which would reduce the consistency of the company's long-term development goals [5,6]. In addition, ‘mandatory deferred encashment’ provisions can be introduced, for example, part of the share incentives can only be transferred after meeting the company's long-term financial or non-financial performance conditions, to further enhance the director's attention to and participation in the company's sustainable strategy.

4.4. Optimize the structure by benchmarking against peer companies

A comparison of the board governance and compensation system of Adidas, a major competitor in the industry, reveals that the company has introduced more cutting-edge mechanisms based on the traditional compensation structure, such as ‘clawback provisions’, which play an increasingly critical role in corporate governance [7,8]. This mechanism not only enhances the importance that executives and directors place on pay rationality and results orientation, but also provides institutional safeguards against unexpected risks and performance imbalances in the company [7,8]. In addition, setting performance thresholds such as total shareholder return (TSR) or return on capital (ROIC) as a prerequisite for the cash-out of equity incentives has also, to a certain extent, prompted directors to pay more attention to the efficiency of the enterprise's capital and the maximisation of shareholders' interests [9,10].

In contrast, although Nike's current director compensation system has the advantages of long-term incentives and shareholding in the structure, and the implementation has been maintained well, there is still room for improvement in performance sensitivity, risk hedging mechanism and accountability mechanism. Therefore, it is recommended that Nike, on the basis of maintaining the advantages of the existing system, draw on the advanced experience of the abovementioned industry benchmark companies and introduce other mechanisms as appropriate, in order to build a more comprehensive system of incentives and restraints for directors.

This will not only help to further strengthen the directors' concern and sense of responsibility for the sustainable performance of the enterprise, but also enhance Nike's governance transparency and risk management ability in the eyes of global investors, thus establishing a more competitive and forward-looking corporate governance image in the global market and providing solid institutional support for the company to achieve long-term value creation and high-quality development.

5. Conclusion

This paper systematically analyses the realisation of the alignment of Nike's director remuneration structure with shareholders' interests. It is found that Nike's existing director compensation system has formed a reasonable allocation between fixed compensation and equity incentives, and has partially achieved alignment with shareholders' interests through restricted stock units (RSUs) and long-term shareholding requirements, which to a certain extent have strengthened the directors' focus on the company's long-term development. However, there are still several shortcomings in the current remuneration mechanism. Firstly, long-term incentives lack performance indicators directly linked to the company's core strategic objectives, such as technological innovation, green transformation and global layout, and the consistency between incentives and the company's strategy needs to be improved. Secondly, the performance evaluation system for directors is still based on subjective assessment and lacks systematic and quantitative assessment standards, which reduces the effectiveness of incentive constraints. In addition, there is still room for optimisation of the threshold of equity holding compared with the peers, and the system of share lock-up period and mandatory delayed encashment is not yet perfect. At the same time, the risk control and liability tracing mechanism is insufficient, and the clawback provisions and multi-dimensional performance thresholds are not yet introduced as cutting-edge governance tools.

Based on the above issues, this paper puts forward specific optimisation recommendations, including the introduction of performance-related equity incentives, the construction of a comprehensive score performance evaluation system, the enhancement of equity holding standards and lock-up arrangements, and the improvement of risk control and accountability mechanisms against peer companies. The implementation of these recommendations can help strengthen the strategic orientation and governance independence of the board of directors, enhance the transparency of corporate governance, risk prevention ability and market trust, and ultimately help Nike maximise shareholder value and sustainable development in a globally competitive environment.

The significance of this study lies in the fact that, taking Nike as a sample, it systematically reveals the challenges and feasible paths of multinational corporations' directors' compensation design in terms of coordination of interests, governance optimisation and long-term incentives, and provides relevant practical experience and theoretical references for related enterprises, policy makers and corporate governance research. However, it should be pointed out that this paper still has certain limitations, which are mainly reflected in the relatively single research object and the lack of a wider cross-industry and cross-region comparison sample. Future research can further expand the scope of the sample, introduce longitudinal performance tracking and empirical data analysis, and explore the dynamic impact of optimising directors' remuneration structure on corporate governance performance.

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