Video Segment 1: Defining the "G" (Governance) in ESG

NOTE-TAKING GUIDE

"It's amazing how much governance has changed." – Dr. Luke Taylor

Each of the panelists brings a unique point of view to Wharton's discussion on *ESG: Redefining Corporate Governance*. It's important to understand their roles as you explore aspects of the discussion. Take note of the titles and organizations for each of the following, and include a brief description of what you see as their **unique perspective** on ESG and corporate governance:

Erika James:

Mary-Hunter (Mae) McDonnell:

Luke Taylor:

Brian Stafford:

Before you begin to dig into the "G" of ESG and truly explore the ways that corporate governance is changing in this new era, take a moment to reflect on what you understand about corporate boards of directors. What is a board of directors? Have you read about boards or experienced a board-like setting in your own life? What is a board meeting? What is your understanding of what they are and why they exist? The introduction at the top of the *ESG: Redefining Corporate Governance* mini-site will help.

Who are the following people and entities and how have they contributed to the evolving definition and reframing of corporate governance over time? (You can also refer to the vocabulary list below):

Milton Friedman:

The Business Roundtable:

Engine No. 1:

Team Model of Leadership:

Explain the concept of **Maximizing Shareholder Welfare** and how it differs from past beliefs.

Name 3 attributes of corporate governance that are prioritized as a result of ESG:

1.

2.

3.

THE LANGUAGE OF BUSINESS

Asset Management	Supplier
Company	Team
Corporate Board of Directors	Inclusion
Corporate Director	Industry
Corporate Governance	Manager
Corporation	Organization
Diversity	Public Policy
Economist	Executive Team
Shareholder	Hedge Fund
Social Impact	

Active Ownership: When shareholders that own equity in a business advocate for good corporate governance and actions that will improve the company's value.

Activist Campaign: A way that shareholders can influence a corporation's behavior by exercising their rights as partial owners.

Brian Stafford: A 1998 graduate of the Wharton School and President and CEO of Diligent Corporation.

The Business Roundtable: An association of CEOs from America's top companies that redefined the purpose of corporations in 2019, saying they should serve not only their shareholders, but also deliver value to customers, take care of their employees, treat suppliers well and support their communities.

Corporate Governance (see video glossary links): The rules, practices and processes used to direct and manage a company. A company's board of directors is the primary force influencing corporate governance.

Corporate Law: The body of law that governs businesses.

David Swift: Chief Operating Officer of Engine No. 1, an investment firm whose purpose is to create long-term value through active ownership. David is featured in our first *ESG: Tackling the Climate Crisis* mini-site.

Diligent Corporation: A large governance risk compliance and ESG software provider that works with corporate boards to facilitate board meetings and activities and to deal with challenges.

Engine No. 1 A hedge fund that is part of a new breed of shareholder activists believing that social good is important to a company's value and impacts the bottom line. Founded in 2020, Engine No. 1 is all about active ownership of the companies in which it invests. It is perhaps most well-known for buying a stake in ExxonMobil, an international oil and gas company, and advocating for climate policy.

Erika H. James: Dean of the Wharton School of the University of Pennsylvania, she is the first woman and African-American to lead Wharton in its history.

ESG: ESG stands for Environmental, Social and Governance and refers to a system for how to measure the sustainability of a company. It is an evaluation of a firm's beliefs and attitudes about social and environmental factors. Companies, and their corporate boards of directors, are thinking hard about how to incorporate ESG factors into their business strategies to appeal to investors, customers and other stakeholders. And investors are turning to ESG rating firms and others to screen their investments on these various factors. Effective and evolving governance helps firms meet their ESG goals.

ESG: Tackling the Climate Crisis: The first discussion in a 2021 three-part series on ESG led by Wharton Dean Erika James, for which Wharton Global Youth Program created a mini-site for high school students and educators to explore ESG and climate change.

Executives: Top leaders in an organization.

Firm: Another word for company.

Fossil Fuels: Carbon-rich fuels that are burned for energy, including coal, crude oil and natural gas.

Luke Taylor: An associate professor of finance at the Wharton School.

Market: Where buyers and sellers can meet for the exchange or transaction of goods and services, like the stock market.

Market Outperformance: When a stock outperforms a specific index or the overall market.

Mary-Hunter (Mae) McDonnell: An associate professor of management at the Wharton School.

Milton Friedman: A famous American economist who wrote an essay suggesting that the only responsibility of business is to maximize profits and create value for shareholders.

Profits: Financial gain reached in a company when the revenue it generates exceeds its expenses – so, it's making money.

Shareholder Primacy: When maximizing profits and shareholder value are the most important goals of corporate governance.

Shareholder Proposal: A document proposal that a shareholder submits to a company to advocate for a particular course of action.

Shareholder Value: When people who own equity in a company (ie: stockholders) get value from the activities of the management, such as when they increase sales and earnings.

Shareholder Welfare: Rather than maximizing shareholder financial goals, Dr. Taylor suggests that companies should be maximizing shareholder welfare. It's a concept that recognizes that shareholders care about more than just financial profits when they own equity in a company. For example, they want companies to treat employees well and clean up the environment. A shareholder might be willing to sacrifice some of his or her profits if a company is working toward doing the right thing.

Stakeholder: A person with an interest or concern in a business, including owners, managers, employees, customers and investors.

Tarnopol Lecture Series: Honoring Michael L. Tarnopol (W'58), this Dean's lecture series features influencers and executives discussing critical issues facing society and business, including the business of race and ESG. Wharton Global Youth's Explore Business mini-sites are built with insight and discussions from this series.

The Wharton School: Part of the University of Pennsylvania, Wharton is a world leader in business education.

Whistleblowing Procedures: Policies and procedures that encourage an employee or volunteer to come forward as a "whistleblower" to provide information on illegal practices or violations observed inside a company.

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