Video Segment 2: Corporate Boards Respond to Current Crises and ESG

"We work with over 750,000 board members globally…and the single most frequently asked question I get is what should we be doing about ESG?" – Brian Stafford

NOTE-TAKING GUIDE

Dr. McDonnell says that boards are heavily shaped by crisis. How have the following catastrophes influenced changes in corporate governance?

- **Enron and Worldcom**

- **COVID-19 and Social/Political Unrest**

- **Technological Disruption**

Brian Stafford names 3 ways that corporate boards of directors can become more resilient in troubling times. What are they?

1.

2.

3.

Brian Stafford points to employee sentiment and consumer pressure as reasons why ESG will continue to get “raised in the boardroom.” Reread the definition of ESG. How have you influenced aspects of the ESG movement in one or both of these roles (employee and/or consumer). Think about big ESG issues like climate change and social unrest, as well as the overall spirit of businesses caring more about the planet and its people. If you haven’t done so already, how might you influence ESG sentiment as an employee or a consumer? What effect do you think your opinions and decisions will have on the way companies and corporate boards operate? How will you hold companies accountable?

THE LANGUAGE OF BUSINESS

Company	Organization
Consumer	Pension
Corporate Board of Directors	Private Equity
Corporate Director	Product
Corporate Governance	Public Company
The Economy	Public Policy
Executive Team	SEC
Government Regulation	Service
Investor	Socially Responsible Investing
Management	Team

Accounting Scandals: Scandals that occur due to intentional manipulation of a company's financial statements. Enron Corp. and Worldcom were two companies that suffered high-profile accounting scandals in the early 2000s. Corporate boards were held accountable for not closely monitoring companies' practices and protecting shareholder value.

Audit: An official financial examination of a company's accounts.

Best Practice: The most effective and efficient way to do something.

BlackRock: An American multinational investment management corporation.

Board Member: A member of a board of directors who might also be referred to as a corporate director.

Board Monitoring and Oversight: The Board of Directors makes sure a company and its management are operating appropriately and then monitors or follows its progress related to different policies and programs.

Boardroom: The physical location where board meetings are held, as well as the term for a collective corporate board (the boardroom could not agree on a policy).

Corporate Governance (see also 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.

COVID Pandemic: The global crisis that began in December 2019 with the emergence of Coronavirus Disease or COVID-19.

Crisis Leadership: Leading effectively during times of crisis and challenge.

Crisis Management: Identifying threats to organizations and their stakeholders and then working to manage those threats appropriately.

Cyber Risk: Potential failures in information systems that could spell trouble for companies, like hacking.

D&O Insurance: Directors and Officers Liability Insurance is a type of insurance coverage meant to protect individuals from personal losses if they are sued while serving as a director or an officer of an organization.

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

Disclosure: When a business is completely honest and open with what it reports to the public, like full disclosure of its factory emissions and its environmental impact. Disclosure in documents like annual reports and 10Ks allow investors to make informed decisions about their investment decisions because they know a company's authentic story.

Employee Compensation: How much an employee is paid.

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.

Enron: A U.S.-based energy company that was rocked by a large-scale accounting scandal in 2001 and underwent a massive bankruptcy.

Enterprise Risk: Potential losses that require the top levels of an organization – including boards of directors and executive management -- to use sound corporate governance.

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 is helping firms meet their ESG goals.

Firm: Another word for company.

GDPR: An acronym for General Data Protection Regulation, one of the world's toughest privacy and security laws.

GPs: General partners in a company who join with at least one other person to form a business.

Human Resources: Corporate activities related to hiring, training and retaining employees.

Long-term Strategy: A company's detailed plan that defines goals for the future.

LPs: Limited partners in a company who receive limited profits.

Middle Market Economy: The economy that includes businesses with annual revenues between $10 million and $1 billion, depending on their industry.

Near-term Liquidity: A measure of financial health that assesses a company's ability to meet its short-term obligations.

Non-market Crisis: A challenge or threat to a company that is not driven by the financial markets, like the pandemic or social unrest.

Onboarding: Introducing a newly hired employee into an organization and explaining all its policies and procedures.

Pension Fund: A fund from which pensions are paid, accumulated from contributions from employers, employees, or both.

Resilience: The ability to adapt quickly to challenges or disruptions.

Sarbanes-Oxley: The Sarbanes-Oxley Act of 2002 is a law passed by U.S. Congress that mandates corporations to follow certain practices in financial record keeping and reporting.

Social Crises: Problems facing society, like the COVID-19 pandemic and racially motivated social unrest.

State Street Corporation: An American financial services company.

Steward: A business person, such as a corporate director, who provides/encourages careful management and is mindful of creating value for shareholders -- and all stakeholders.

TCFD: Task Force on Climate-related Financial Disclosures

Technological Disruption: Innovations that alter the way a company and its industry operate.

WorldCom: A U.S.-based telecommunications company that was rocked by a large-scale accounting scandal in 2002 and underwent a massive bankruptcy.

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