

Video Segment 4: ESG and Diversity: Do Diverse Boards Perform Better?

“A number of studies suggest that more diverse boards are better ESG Performers.”

– Dr. Mary-Hunter McDonnell

(Note: This [Wharton School press release](#) provides further context around boardroom diversity.)

NOTE-TAKING GUIDE

Listen to Wharton Professor Stephanie Creary’s video glossary definitions for **diversity** and **boardroom diversity** listed in the linked vocabulary below to better understand how diversity relates to corporate governance. Then consider Dr. McDonnell’s point from the video discussion that “the research suggests diversity improves the quality and accuracy of teams’ decision making.” How are more diverse boards of directors improving board performance related to:

Diversity of thought:

Board meeting preparation:

Board meeting deliberation:

Now consider the broader definition of ESG listed below and the idea that to become a more sustainable business in these areas, companies need to do things differently and have a sustainable mindset from the top down. With that in mind, how might more diverse boards improve corporate governance and company performance related to:

ESG Strategy:

Brian Stafford says, “You find more and more Millennial employees and people who are asking questions that say why does our board not look like our team?” Younger generations, also including Generation Z, are increasing internal pressure on companies and corporate boards to make important ESG-related changes. How and why do you value diversity in your everyday life? In meetings and discussions? As a member of one of the most diverse generations, do you believe that corporate boards and companies must embrace diversity to succeed and become more sustainable environmentally and socially?

THE LANGUAGE OF BUSINESS

Boardroom Diversity	Government Regulation
CEO	Institutional Investor
Company	NASDAQ
Corporate Board of Directors	Public Policy
Corporate Director	Regulatory Restrictions
Corporate Governance	SEC
Corporate Social Responsibility (CSR)	Social Identity
Customer Base	Sustainable Business
Demographics	Teams
Diversity	

Board Meeting: A formal meeting of the board of directors of an organization and any invited guests to review company performance, consider policy issues, address problems and discuss priorities. Board meetings are often held several times a year.

Board Member: A member of a corporate board of directors, including inside executives like CEOs and outside appointed board members brought in to oversee business practices and decisions.

Causal Relationship: When the occurrence of one factor causes the next.

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.

Deliberation: Careful consideration and discussion of a topic or issue.

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.

Social Unrest: When a large group of people is dissatisfied, often leading to protests. The May, 2020 death of George Floyd in the U.S. sparked social unrest around issues of justice and race inequality.

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.

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

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

Metrics of Performance: Measurements of the behavior, activities and performance of a business.

Millennial Employees: Company employees in the Millennial generation who are between the ages of 25 and 35.

NASDAQ Diversity: In August 2021, the U.S. Securities and Exchange Commission approved new listing rules regarding board diversity and disclosure. The new rules require a Nasdaq-listed company to have at least two diverse directors, or the company will have to explain why it has failed to do so.

Return on Sales: How efficiently a company turns sales into profits.

ROE: Return on Equity is a measure of the profitability of a business in relation to invested capital.

Social Unrest: When a large group of people is dissatisfied, often leading to protests. The May, 2020 death of George Floyd in the U.S. sparked social unrest around issues of justice and race inequality.

Stock Price Volatility: The rate at which a stock price increases or decreases over a particular period of time.

Teams Literature: Research related to how business teams function and operate.

Transparency: You'll hear this term a lot, especially related to ESG. Transparency in business is the basis for trust between a company and its customers, investors – all stakeholders. When a company is transparent, it is open and honest about communicating what happens behind the scenes with its operations, management and other business functions.

Underrepresented Minorities: Referring to the racial and ethnic makeup of certain underrepresented groups in society, such as African Americans and Hispanics.

War for Talent: An increasingly competitive landscape for recruiting and retaining employees.

Women on Boards Law: In 2018, California signed Women on Boards into law to advance more equitable gender representation on California corporate boards of directors.

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[How Diverse Boards Can Help Close the Wealth Gap](#)