

Corporate Responsibility in Northeast Asia – South Korea

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I. Introduction

From 2004, Allen White and Marjorie Kelly, two co-founders of Corporation 20/20 and diverse groups from law, labor, business, civil society, government, journalism and finance have been exploring the future of corporations by proposing six principles³, new principles of corporate design that cover purpose, capital, sustainability, wealth, governance and policy. Then, how can these principles be viewed and implemented in emerging economies? What kind of corporate design trends have previously existed and how have different histories and cultures affected corporations in emerging economies? In order to assess the trends and develop economically viable models that meet the core values of the six principles, Emerging Economies of Working Group (EEWG) was formed in 2008.

II. Four Research Questions

EEWG is launching its paper series with this document by starting from South Korea among Northeast Asia to assess the overall landscape of corporate responsibility (CR) in countries with emerging economies according to the following four questions.

1. What are the historical and cultural perspectives that have influenced the evolution of corporate structure, governance, ownership, capitalization and other key aspects of design?
2. What are the societal expectations of various stakeholders towards corporations and CR? We will look at the views of shareholders, employees, business partners, government, lawmakers, the public, consumers, civil society, media, educational institutions and business related associations.
3. What corporate responsibility practices are currently underway in each country, and why do some areas (e.g. human rights, labor, environment, anti-corruption, corporate governance) lead and others lag?
4. What are the reward and incentive structures that encourage or discourage corporate responsibility practices?

We will first look at the historical background of South Korea in chronological order in order to explore each question thoroughly.

III. Historical Background of South Korea⁴

³ www.corporation2020.org

Principle 1. The purpose of the corporation is to harness private interests to serve the public interest

Principle 2. Corporations shall accrue fair returns for shareholders, but not at the expense of the legitimate interests of other stakeholders.

Principle 3. Corporations shall operate sustainably, meeting the needs of the present generation without compromising the ability of future generations to meet their needs.

Principle 4. Corporations shall distribute their wealth equitably among those who contribute to the creation of that wealth.

Principle 5. Corporations shall be governed in a manner that is participatory, transparent, ethical, and accountable.

Principle 6. Corporations shall not infringe on the right of natural persons to govern themselves, nor infringe on other universal human rights.

⁴ A Chronological Table of Korean History, Dahal Media, August 10, 2008

South Korea, officially called the Republic of Korea, began with the establishment of Go-Joseon in 2333 BC by the founding father Dangun. After the Shilla dynasty united the Korean peninsula in 668 by ending the three kingdom period of Shilla, Goguryeo and Baekje, Korea was one country until the Korean War divided it into two countries, South Korea and North Korea.

During the Koryo Dynasty (918-1392), the Korean peninsula was greatly influenced by Buddhism, and during the Chosun Dynasty (1392-1910) by Confucianism. The historical record shows that the first markets for trade appeared during the three kingdom period. In particular, the flourishing trade and business markets in the mid and later Chosun periods played a large role in inducing social change of the kingship regime by changing the four social class structures: scholars, who were regarded as high class, farmers, who were makers of fundamental ground, and artisans and merchants, who were considered to belong to the lower class in the early Chosun period.⁵

Japanese colonization (1910-1945) and the Korean War (1950-1953) were two major historical blows to the Korean Economy. In the same way that both Germany and Japan rose from war ashes to create economic miracles, South Korea had to restart from scratch and quickly reconstruct their economy.⁶ The administration of President Rhee Syng-man (1948-1960) focused on rapid reconstruction with the help of the UN and US.

The 1st major expansion of industrialization started with a 5 year economic development plan, announced in 1962. During the administrative period of President Park Chung-Hee (1961-1979), the numbers of large family-led conglomerates, known as Chaebols, grew rapidly and played a major role in Korea's economic development.⁷ Under President Park's ruling, the government had a need for business groups who could carry out economic development projects within a short period of time and with limited resources. In 1961, the Federation of Korean Industries, namely, FKI, Jeon-Kyung-Ryeon in Korean, was established for pro-business advocacy and has continued to be one of the most influential business associations in South Korea to the present day.

In the early 1980s, the government tried to restructure the Korean economic system, which was mainly dominated by a number of Chaebols. However, this attempt was not successful in fundamentally reforming the overall system. The Chaebols' economic influence was quite strong over the 1980s and 1990s. Sales at the top five Chaebol's sales stood at 21% to 23% of the total economy; for the top 30 Chaebols' this number reached around 40%.⁸ President Chun Doo-Hwan's administrative period (1979-1988) was tainted with scandals of slush funds. Many scholars and members of civil society

5 Park, Eun-Sook, History of Market: Changing History of Market and Merchant, Yeoksabipyong-Sa, November 20, 2008

6 Hussain, Tariq, Diamond Dilemma: Shaping Korea for the 21st Century, Random House Joongang, 2006

7 Chaebol are defined as a large group of corporations governed by families and kinship which created growth with the support of government. Cho, Dong-Sung, Research on Korean Chaebols, Maeil Economic Daily, 1990. Key characteristics of Chaebol are described as 1) managing several non-relevant industrial enterprises 2) owned by a specific family 3) dependent on capital outside of Chaebol 4) run by a centralized control system 5) managed by a paternalism-based management philosophy 6) dependent on overseas management resources. Chung, Koo-Hyun, Growth Strategy and Management Structure of Korean Corporations, Korea Chamber of Commerce & Industry, 1987

8 National Statistics Office and Fair trade Commission

criticized the close relationship between business and government. Over the 1970s and 1980s, Korean civil society struggled for democracy and human rights in South Korea.

In 1987, South Korea achieved democratization including the direct national election of the President. The 24th Olympics in 1988 in Seoul was a kind of great celebration of Korea's economic success in and out of South Korea rather than just a sports event. President Roh Tae-Woo (1988-1993) and Kim Young-Sam's administrations (1993-1998) aimed at a more advanced market economy. During this period the Korean economy tried to build a more sophisticated industrial structure using intensive capital and high technologies such as semiconductors, information technology and auto industries, which were developed by investment from the private sector rather than the government.

The Asian financial crisis in 1997 ironically became a chance to restructure the Chaebol and government led economy. President Kim Dae-Jung (1998-2003) and Roh Moo-Hyun (2003-2008) who were generally considered as liberal, tried hard to change the centralized and regulated economic system. CR also became a major issue among the public. Media, government, and civil society organizations (CSO) emphasized the importance of CR. The government realized that transparent corporate governance and ethical performance of business were major factors in South Korea's economic competitiveness. Corporate philanthropy was mainly driven by a general expectation for Chaebols to share the social welfare burden. FKI noted a six-fold increase in the corporate philanthropy budget of major corporations from 1996 to 2006.⁹

President Lee Myung-Bak's administration (2008-Present) is facing a global financial crisis and worldwide recession. Launched with pragmatism and business friendly slogans, President Lee's administration puts more emphasis on basic CR of investment, job creation and sharing.

IV. Analysis

1. Historical and Cultural Perspectives and Implication for Business and CR

Historical and cultural perspectives and implications for business and CR can be viewed from two approaches. One is to look back in the past and to analyze key major influencing factors for the evolution of corporate structure, governance, ownership and capitalization. The other is to take a future outlook about the factors for prospects of further evolution.

Three key aspects that influenced corporate design in the past are the government led economy, the family-led Chaebol system and strong CSO for socio-economic changes.

First, the government played a key role in economic growth in South Korea.

⁹ The total sum of 202 corporations in 1996 was 36,764,000,000 KRW, approximately 28 million USD (1USD = 1,300 KRW) and in 2006, 184,800,000,000 KRW, approximately 142 million USD.

Throughout Korea's turbulent modern history, the South Korean government had to rebuild the national economy rapidly with imperatives of stability and rehabilitation after liberalization of Japanese colonization and the Korean War. Especially in the era of fast changing socio-political turbulence, political leaders in South Korea had no choice but to focus on the efficiency of the economy. Over the 1970s and 1980s, the South Korean government had taken charge of distributing limited resources to promising industries. During these processes, industrial policies at microeconomic levels were crucial to the success or failure of development projects.

The second key aspect was the major role played by the family-led Chaebol system. Entrepreneurship is one of the most important driving forces of social change and economic development. Historically in Korea, the merchant class was treated as a lower level group in the Chosun Dynasty's social class system. As time went by, however, the merchant class gained influence through accumulated wealth and means of transactions. Many of them were marginalized scholars in the previous Koryo Dynasty and they became elite merchants. Especially in the mid Chosun period after the Japanese invasion in the 16th century, major regional trade and business groups arose.¹⁰ The Chosun Dynasty's feudalistic class system had been gradually dismantled due to the rise of the merchant class and wider cultural and social exchange with overseas countries. Modern Korean business groups mainly developed from family owned corporations based on real estate and agricultural wealth, or from company stock investment during the late Japanese colonization period. After liberalization and the Korean War, the Korean government gave strong support to several trusted and experienced entrepreneurs to foster fast growth.¹¹

The third key aspect was the strong civil society sector that brought democracy after its struggles in the 1960s to 1980s. The 2007 survey carried out by the Social Development Research Center of Seoul National University proved that CSO ranked at the top in terms of trust level, followed by media, judiciary, government administration, parliament and political parties, even though the % has decreased compared with the same survey in 1996 and 2003.¹² In particular, the CSO's advocacy to improve environment and social responsibilities, corporate governance and transparency has accelerated, along with increased pressure of non-financial performance reporting.

Then, what would be key historical and cultural aspects that would influence corporate design in the future for business and CR? In the past, each factor in public, private and nonprofit sectors greatly influenced the evolution of corporate structure, governance, ownership and capitalization. All three mentioned above, will surely continue to impact

10 "Mansang" in Euijoo specialized in trade with China of Chung Dynasty, "Songsang" in Kaeseong, famous for nationwide ginseng sales and trade, "Kyungkang Sangin" in Hankang, currently, Seoul for trade, transportation and distribution industry and "Naesang" in Dongrae, currently, Busan, known for trade with Japan. Park, Eun-Sook, History of Market: Changing History of Market and Merchant, Yeoksabipyong-Sa, November 20, 2008, p. 121-124

11 Returned wealth from Japanese colonization, about 30% of the total national wealth was distributed to successful entrepreneurs from the Korean government and American Office of the Properties Custodian (AOPC). Import trade licenses were selectively distributed. Favorable official development assistance, foreign exchange and credit were given. Kang, Myung-Hyun, Chaebols and Korean Economy, Nanam Shin-Seo 456, P. 29-55

12 http://www.hani.co.kr/arti/economy/heri_review/329489.html

the further evolution of CR. Here, we would like to suggest three other major potential factors that might be considered to have a large influence in terms of corporate redesign in the future. These may also have had influence in the past but their impacts were not so distinct. What is important to consider when looking back at the following historical and cultural perspectives is that they are directly related with the six principles of corporate design regarding purpose, capital, sustainability, wealth, governance and policy described earlier. More importantly, they are already rooted in the history and culture of South Korea. If CR in South Korea extracts, adopts and integrates them into business, they will help future corporate redesign by providing a solid and firm philosophical ground for long-term sustainability.

Firstly, CR in South Korea can restore legacy-based spirituality. Historically, its founding philosophy was “Hong-Ik-In-Gan (弘益人間): benefiting all humankind widely”. As Caux Round Table principles once produced a cross reference matrix mapping core values of different religions and its principles¹³, South Korea’s spiritual heritages of Confucianism, Buddhism, modern Christianity and traditional indigenous faith can become a good foundation for pursuing stakeholder principles and various economic, social and environmental responsibilities. One of the key virtues of Confucianism, “Zhongyong (中庸): Mean” can be adapted to pursue the six principles of Corporation 20/20. The definition of the concept Zhongyong is balancing harmony between two opposite or confronting sides by not being tilted nor inclined to one side. Zhongyong expresses an ideal of moderation avoiding excesses and deficiencies. Also, it implies that when a person does something, it should not be done too much, nor done not enough. In Zhongyong, both these ends are equally considered as not ideal. Finding a balance is determined by components that comprise both or multiple relative ends. It is obtained by realization of ethical self as a principal of action.¹⁴ Searching for balance between private and public interests, between shareholders and stakeholders, resource usage between present and future and fair wealth distribution between earners and contributors along with pursuing virtues of participation, transparency, ethics, accountability and human rights can be a way of embedding traditional values into business with global principles, as a hybrid form of CR, which will create a Korean way - or an Asian way as a broader concept - of CR.

Secondly, “Gong-Dong-Che (共同體): Community”, one of the historical and cultural concepts can be used as a base of CR in South Korea. A sustainable development concept does not view business alone; the community and societal ecosystem surrounding a business are considered together as a whole. This systemic design concept emphasizes an important role of business honoring cooperative and ethical

13 Caux Round Table outlined specifying six general principles regarding business responsibility, its economic and social impact, business behavior, respect for rules, support for multilateral trade, respect for environment and avoidance of illicit operations as well as stakeholder principles regarding customers, employees, owners/investors, suppliers, competitors, communities. These principles were cross referenced using a matrix with core common virtues of various religious foundations in Judeo-Christian, Protestant, Papal teachings, Islam, Thai Theravada Buddhist, Mahayana Buddhist, Confucianism, Hindu, African spirituality, Japanese Kami, Meso-American indigenous theology in the paper by Young, Stephen B. *Principled-based leadership: Lessons from the Caux Round Table*, Maak, Thomas and Pless, Nicola M. *Responsible Leadership*, Routledge, 2006

14 Choi, Young-Jin, Zhongyong, *Eastern Philosophy in the 21st Century: Future of East Asia opening with 60 keywords*, Eulyu-Munwhasa, 2005 p. 215-222

values. Asian values of community have been expressed in various cultural practices. “Doorae” is a grassroots custom of cooperative labor in a town or a village in the busy harvest season of the late Chosun Dynasty. It was voluntary community activity, especially essential for small scale farmers. Farmers helped each other’s harvest work by taking turns. “Poomahaty” is smaller scale of labor cooperative activity than “Doorae”. “Hyangyak” is a cooperative to keep Confucianism principles of recommendation of virtuous deeds, correction of mistakes, sharing good customs and assisting each other with difficulties. In agricultural societies like South Korea and China, where the agricultural population is still more than 70% of the total population, community-based culture is essential.¹⁵ In 2006, *Remin Daily*, the most influential newspaper of China, exceptionally praised “One Company One Rural Village”, a corporate philanthropy program of Samsung with joint efforts of FKI and National Agricultural Cooperative Federation (Nong-Hyup). Cultural proximity might have helped this kind of social acceptance.

Thirdly, the virtue of noblesse oblige shall be restored as a foundation of CR in South Korea by Chaebols. In the 18th century of the late Chosun dynasty, there was a rich family in Kyungjoo Province that provides us with a perfect example of noblesse oblige.¹⁶ Choi’s family was famous for its generous wealth distribution, frugality and respect for the country. Their care of the weak lasted three hundred years over twelve generations through active involvement during invasions from neighboring countries, land cultivation, discount of farming rent, adoption of new agricultural methods, massive charitable acts and disposal of mortgage documents in times of famine, and philanthropic donations to establish Daegu and Chungu universities.¹⁷

2. Various Views of Stakeholders towards Corporations and CR

In order to assess trends of CR in South Korea, it will be helpful to understand various societal expectations of stakeholders towards corporations and CR.

- Shareholders – Short term investment has been rampant among both institutional and individual shareholders. A socially responsible investment (SRI) movement emerged in 1999 and the Center for Corporate Responsibility, a multi faith based organization, launched the first social responsible investment (SRI) fund, SRI-MMF fund in South Korea in 2003. As of February 2008, 29 SRI funds with a total amount of about 1 billion USD have been mobilized and they have increased their actions of positive/negative screening, shareholder engagement and

15 Kim, Soo-Joong, Gong-Dong-Che, *Eastern Philosophy in the 21st Century: Future of East Asia* opening with 60 keywords, Eulyu-Munwhasa, 2005 p. 265-272

16 The six principles of Choi’s family down over 300 years were 1) Do not buy lands in famine – do not take discounted advantage of the poor as the rich 2) Do not make wealth more than the worth of 10,000 bags of rice – fair return to stakeholders and wealth distribution 3) Treat guests well – avoid making enemies by providing hospitality 4) Do not make people starve to death within 100 Ri (about 39 km) around the house –provide generous philanthropy respecting the community’s well being 5) When you pass the national exam for government officials, do not be promoted over Jinsa (the 1st level of government official) – Higher political power will bring disaster. You cannot obtain both wealth and power. 6) Daughters-in-law should wear plain cloth for three years after marriage – frugality.

17 Jeon, Jin-Mun, *Secrets of 300 years of Wealth of Choi’s Rich Family of Kyungjoo*, Hwang-Keum-Ka-Ji, 2004

community investing. After its 2006 launch, the Korea Corporate Governance Fund (KCGF: Nicknamed Jang, Ha-sung Fund) contributed much, publicizing heavily, raising awareness of SRI, and advocating importance of long term investment.¹⁸ Still, there is a long way to go toward long term investment practices. Financial performance is still the most important factor considered by investors.

- Employees – Wages and financial factors cannot be thought of as the only incentive to acquire excellent human resources for companies. Though a survey similar to Fortune magazine’s 100 “Best Companies to Work for” does not exist in South Korea, corporate culture and human resource management have become more concerned with CR. Corporations are beginning to use tracking surveys to follow ESI (Employee Satisfaction Index) and include these results in their sustainability or CR reports.
- Business partners/suppliers – In South Korea, the relationship between large conglomerates and small to medium enterprises (SMEs) has been considered as critical to sustainable economic development. Large conglomerates dominate market share and exports. However, the total number of SMEs is about 3 million, which made up 99.9% of South Korean industry in 2007. These SMEs hired 88% of the economically active population and produced about 60% of GDP, symbiotically with large conglomerates, as well as independent sales. The mutually beneficial win-win model between big corporations and SMEs for collaborative cooperation and productive co-existence is an important topic. Through business partner management systems, large conglomerates and state owned enterprises support their SME business partners/suppliers in facility and operation funds, business management and innovation, research and development, and human resources.¹⁹
- Government – Since the late 1990s, especially after the Asian financial crisis hit the Korean economy very hard, the South Korean government has been very eager to improve corporate governance and enhance transparency. Policy priorities have been gradually spread from economic issues to other new social issues including environment, labor, welfare, education and justice etc. Owing to this transformation, many special National committees were established by political leaders. For example, the establishment of PCSDI (The Presidential Commission on Sustainable Development) in 2000, showed the Korean government’s zeal for sustainable development. This commission included 13 related ministers. Even the Lee Myung-bak administration, which curtailed many of the special Presidential committees from previous administrations, launched the Presidential Council on National Competitiveness in January, 2008. This

18 Korea Sustainability Investing Forum, 2007 White Paper on SRI in Korea: Opening sustainable future of SRI, 21C Books, 2008.
19 In research report of FKI LSC (FKI Center for Large and Small Business Cooperation) in December 2007, “Strategies and Tasks, of Collaboration among Big, Medium and Small Corporations”, 30 major big corporations funded about 214 million USD. In 2007, support was extended to 2nd and 3rd tier suppliers.

Council has been driving various measures of deregulation, public sector reform, foreign direct investment promotional measures and transparent reinforcement of rules and laws in order to prop up the country's competitiveness. In recent times, faced with the global economic crisis triggered by the US financial sector, the Korean government expects large conglomerates to play a major role in job creation and sharing, aggressive investment and caring for the poor.

- Lawmakers – The current 18th National Assembly was formed in April, 2008 with a total of 299 seats.²⁰ Depending upon the nature of the party, each party has a different stance towards Chaebols. Each lawmaker also has a variety of expectations and viewpoints towards business and Chaebols. CR and sustainable development have been reflected in recent legislation. In January, 2007, the 9th clause of Industrial Development Law was newly added to foster sustainable management addressing global standards and principles, to increase industrial competitiveness through sustainable business management, and to support corporate voluntary actions for sustainable management. This has influenced voluntary corporate efforts to set up systematic CR or sustainable business management structure. Another piece of legislation related to CR is the Social Enterprise Promotion Law passed in April, 2007 to foster job creation for the disadvantaged.
- Korean public – In 2006, FKI conducted a survey through Gallup Korea to 1,000 general public participants aged 20-59 and 201 business people participants about the Korean public's perception of corporations and business people. 72.8% of general public participants had a favorable impression of SMEs, 58% to large conglomerates, 41.1% to corporate owners and 39.9% to rich people. Overall positive recognition towards business was 14% whereas negative recognition was 48.4%.²¹ In a similar survey by FKI with Gallup Korea in 2005, 68.4% of business people participants felt that anti-business sentiments were serious and 73.7% wanted to overcome them with ethical and transparent management. General public participants put contribution for national and social development as the top purpose of South Korean corporations (26.2%). Customer satisfaction came second (23.0%) with profit maximization in third place (19.6%).²²
- Consumers – Since 1998, NCSI (National Customer Satisfaction Index) has been gauged by KPC (Korea Productivity Center) founded in 1957. NCSI surveys more than 50,000 people annually about their satisfaction level about more than 200 companies including state owned enterprises, 37 industries and 7 economic sectors as well as national level. KCSI (Korean Customer Satisfaction Index) by

20 At the opening in 2008, its composition was the ruling Grand National Party with 153 seats, the Democratic Party 81, Liberty Forward Party 18, Renewal of Korea Party 3, Pro-Park Geun-hye Alliance 14, the Democratic Labor Party 5 including proportional representation system seats.

21 FKI, 2006 Survey about Korean public's perception of corporations and business people with Gallup Korea. Lim, Hyung-Seob, Dailynocut News December 11, 2006 Page 2

22 FKI, 2005 Survey about Korean public's perception of corporations and business people with Gallup Korea. Chu, Wang-Hoon, Yonhap News December 27, 2005

KMAC (Korean Management Association Consulting) also surveys 10,000 people annually about their satisfaction level regarding more than 100 industrial corporate products and services, more than 73% worth of the total industry comprising GDP. Apart from mainstream consumerism, ethical consumerism is also emerging. The Korea Fair Trade Association, founded in 2006, has raised the issue of fair trade through good chocolate and coffee campaigns. E-commerce, Erounmall online shopping mall, is also backing conscientious consumerism. The Korea Consumer Agency, founded in 1987 under Consumer Protection Law, has been advocating consumer rights through its conventional consumer safety advocacy activities.

- Civil society – Social service organizations consider corporations as partners for mobilizing resources to solidify social safety nets as well as collaborators for capacity building of nonprofit management. Social movement organizations see corporations with various perspectives for issue raising, depending upon organizational specialty and topics of advocacy.
- Media – Expectations towards business and CR vary between liberal and conservative media organizations and companies. This also reflects the wide spectrum of public opinion. Online media has a relatively strong influence given the fact that South Korea has the highest penetration rate of Internet use even among advanced countries.²³ Overall, media is favorable and supportive towards corporate philanthropy. Several printed and e-magazine type media specializing in CR have recently emerged and these may become a promising avenue to increase CR awareness.
- Educational institutions – Social welfare academics have played a key role in raising recognition of the private sector's contribution to social safety net provision as well as private and public partnership for national welfare. Business schools have advocated sustainable business management for triple bottom lines (TBL), economic, social and environmental responsibilities. It is notable that KAIST Business School was included in the UN Global Compact's "First 100 Principles for Responsible Management Education Participants". Social Venture Competition Korea, co-hosted by Korea, Sogang, KAIST, Yonsei and Seoul National University business schools as well as ARK (Lee&Kim) Equity Hedge Funds & Investment Advisors, has been held annually from 2006. These show significant progress in endeavors to educate future CR leaders.
- Business related associations – FKI, Korea Chamber of Commerce & Industry (KCCI), Korea International Trade Association (KITA) Korean Federation of Small and Medium Business (Kbiz) and Korea Employers' Federation are the big five influential business supporting organizations. They have been trying to re-

23 More than 65% of the total population of South Korea are Internet users.

emphasize entrepreneurship in building the national economy in order to overcome the current economic crisis.

3. CR Practices by Issues

ESG (Environmental, Social and Governance) issues are core areas of SRI. Human rights, labor, environment, and anti-corruption are four areas that comprise ten principles of the UN Global Compact. Observing the progress and status of these five areas will be helpful in assessing current CR practices underway in South Korea. We will also see implications about why some areas lead or others lag.

- Human Rights

One of EEWG's efforts is to find connections between historical and cultural roots and modern trends and standards. It is said that there are different views on human rights between Westerners and East Asians in terms of the concept of rights and the nature of the individual.²⁴ Apart from this difference, the concept of human rights and its implication are associated with complex and sensitive mind sets of South Koreans, due to ideology struggles related with the Korean War under the influences of North Korea, the Soviet Union, China and the US. Finding connections between human rights and sustainable development as well as business cases is needed first to improve status in this area.

Not enough attention has been given to human rights issues related with non-labor rights and stakeholder approaches in South Korea's private sector. This was found in the 2008 survey & analysis of human right policies and management practices of major Korean corporations by National Human Rights Commission of Korea (NHRCK) and the Center for CSR.²⁵

Established in November 2001, NHRCK is one of most active organizations to increase business and social sensitivity on business and human rights. In 2007, it even co-hosted the international CSR seminar focusing business and human rights with FKI, and in 2008, the international conference on SRI. NHRCK has been studying the possibility of modeling a Korean-style guideline of business and human rights and outreaching to corporations for education on human rights including managers of Korean corporations hiring non-Koreans.

24 Westerners see individuals as separate units and the relationship between the individual and the state is one-many, while East Asians see part-whole. To East Asians, societies are not viewed as aggregates of individuals but as organisms with a perspective of collectivity. Nisbett, Richard E. *The Geography of Thought: How Asians and Westerners Think Differently... and Why*. Free Press, Page 198-199

25 37 companies out of 100 listed in World Index of Financial Times Stock Exchange responded to the survey. 26.9% of responses showed that they have policies about human rights complicity for their overseas business in developing countries. In the host country, the actual compliance rate is 50%. Human rights impact assessment conducting for new business is 16.7% for domestic projects and 15.6% for overseas ones. 38.7% in its actual compliance for human rights policy on supply chain. 35.7% answered that they conduct external stakeholder dialogue with NGOs. 2008 Survey and analysis report of human right policies and management practices of major Korean corporations, NHRCK, page xii

Another organization is Global Compact Korea Network, founded in September, 2007. The survey result, mentioned above, showed that UN Global Compact signatory companies, 50% of survey contributors, integrate human rights in business management relatively better than non-signatory ones. As of February 2009, there are 148 signatory members including state owned enterprises like Korea Gas Corporation and Korea National Oil Corporation as well as Korean Chaebol subsidiaries from SK, Hyundai and CJ.²⁶ SK Telecom, one of the core subsidiaries of SK Group whose chairman, Chey Tae-Won, is a UN Global Compact Board member, is participating in the human rights working group of Global Reporting Initiative (GRI).

Korea Human Rights Foundation has been trying to improve social dialogues on business and human rights through engagements between corporations and human rights NGOs. Korea House for International Solidarity, a corporate watch NGO, has been monitoring human rights performance of Korean business overseas. Public interests lawyer group, Gong-Gam, deals with remedies for victims of human rights abuses.

- Labor

In the survey about business and human rights mentioned above, questions about business policies and management regarding labor rights were also included. The survey asked specifically about key ILO standards – non discrimination, child labor, forced labor, freedom of association, and the right to organize and participate in collective bargaining. The rate of response for each category described here ranged from 64.9% to 94.3% saying that business policy for each area is set up and implemented in practice. However, the figure for the irregular workforce area is rather low. Only 35.1% of responses showed commitment to the right for equal pay and equal work for irregular workforce in the form of written business policy.²⁷

HERI (Hankyoreh Economic Research Institute) analyzed the sustainability reports of 50 Chinese, Japanese and Korean corporations in Fortune global 500 to gauge their information disclosure status regarding their CR performance. Its analysis found that the report publications from some major companies did not use proper verification procedures in some of their labor information areas or showed limited verification of labor sampling information, while labor information disclosure was done fairly extensively.²⁸

An unstable and ailing economic climate has made the labor situation grimmer. The economic growth rate is predicted to decline. The employment rate declined by

26 Signatory member list from Global Compact Korea Network Web site <http://www.unglobalcompact.kr/32.php>

27 2008 Survey and analysis report of human right policies and management practices of major Korean corporations, NHRCK, page 180-191

28 HERI, East Asia's Response: Comparative Analysis of CSR Performance among Chinese, Japanese and Korean companies listed in Fortune Global 500, HERI Sustainability Management Research 2008-1, Page 44

2.4% and manufacturing is shrinking.²⁹ The National Tax Service announced in February 2009 that corporations who increase job creation and manage job sharing rather than restructuring will be exempt from tax audits. Korean business, both state owned corporations and Chaebols, have plans to increase employment for new participants, especially ones just graduated from universities, by fixing or cutting salaries. Some experts in labor economics are concerned about the possibility that it may reinforce the downward pressures on the overall wages of Korean economy.

Two major trade unions, FKTU (Federation of Korean Trade Unions) and Korean Confederation of Trade Unions have been struggling with the adverse effects of domestic and overseas economic slow downs. The Migrants' trade union has concerns about the situation of migrant workers, who tend to become more vulnerable in difficult times. The Labor Research Institute (LRI), a think tank center founded in 1988, is active in research and information sharing about labor relations, employment, human resource development and labor policies.

- Environment

Under the Bali Roadmap, South Korea, the 9th ranking country in green house gas emissions based on a 2004 UNDP report, must sharply reduce its emissions from 2013.³⁰ Low carbon green growth is one of the major policies of the current President Lee administration to foster green technology, address climate change addressing and find new growth engines. The Green Growth Committee³¹ under the Presidential Office was officially launched in February 2009. Laws regarding various measures and incentives for low carbon green growth will be established soon.³²

In corporate environmental responsibility, supply chain management is the key, since most manufacturing is done by suppliers. Eco-management system is the most developed area within the corporate structure. For example, Samsung Electronics issued its environmental report from 1999, the precursor of GRI based sustainable report, with its leadership obtaining the largest number of eco-marks from South Korea, China, US, EU, Sweden and Germany. In Greenpeace International's eco-friendly company ranking, Samsung Electronics ranked 1st in the 1st quarter of 2008.³³

Along with active environmental advocacy of CSO, Carbon Disclosure Project is a recent movement worthy of attention. As of 2009, 100 South Korean corporations were registered. In its 2008 survey of the top 50 Korean corporations on climate

29 2008 Monthly Employment Status, Economic activity population research, National Statistics Office

30 http://news.chosun.com/site/data/html_dir/2007/12/16/2007121600705.html

31 Three former advisory committees, Climate Change Committee, National Energy Committee and Korean National Commission on Sustainable Development were merged into Green Growth Committee.

http://www.president.go.kr/kr/president/news/news_view.php?uno=481

32 http://www.president.go.kr/kr/president/news/news_view.php?uno=481

33 Presentation of Samsung Electronics, Best Practice of Sustainability in South Korea, 2008 Korean Sustainability Conference, Korea Standard Association

change risk management, 88% said they have already started to prepare detailed actions or are in the middle of preparation. It is notable that leadership at the levels of Vice Chairman, CTO or board of directors of Hyundai-Kia Automotive Group, LG Electronics and POSCO are engaged directly.³⁴

- Anti-Corruption

Anti-corruption and ethical management practices have been reinforced by the Korean government and Korean private sector in the past. Yet, in a ranking survey by Transparency International's Bribe Payers Index, South Korea ranked 18th out of 19 countries in 1999, 18th out of 21 countries in 2002 and 21st out of 30 countries in 2006.³⁵

Apart from Global Compact Korea Network, other active advocacy organizations for anti-corruption currently are ACRC (Anti-corruption and civil rights commission) and Transparency International Korea. ACRC was formally launched in 2008 and KICAC (The Korea Independent Commission against Corruption), established in 2002, was integrated with ACRC. In 2005, Transparency International Korea acted as a catalyst to produce the Social Pact on Anti-Corruption and Transparency (K-PACT), a national alliance consisting of representatives from civil society, public, private, and political sectors for their commitment to promote and improve transparency in Korean society. This was the first alliance of its kind in Korean history. As a result of its influence, South Korea signed the UN Convention against Corruption and this was ratified by the National Assembly in February 2008.

From 1999, FKI, the umbrella business association representing more than 420 Korean corporations, has also endeavored to improve ethical business management practices in the private sector by introducing Corporate Ethics Committee after the 1997 financial crisis.³⁶ FKI's survey on the status of ethical management of 200 member corporations in October 2008, showed that 95% had adopted a code of conduct³⁷ and 91.3% ran business ethics training. More than 60% of corporations answered that it benefited corporate competitiveness and increased revenue and brand awareness.³⁸

- Corporate Governance

34 http://www.newsis.com/article/view.htm?cID=&ar_id=NISX20081016_0000345547

35 Kim Keo-Sung, Chairman of Transparency International Korea, "Tasks of Corporations for Implementation of the 10th Principles of UN Global Compact", the presentation material for World Anti-Corruption Trends and Challenges for Korean Companies, January 19, 2009, Korean Chamber of Commerce & Industry

36 The origin of business ethics advocacy of FKI tracks back to 1965 when it announced Principles of Economic Conducts. Code of conducts was adopted by POSCO in 1993, LG in 1994, Samsung in 1995 and KEPCO in 1996. Yang, Se-Young, former head of CSR Dept. FKI, Corporate Ethics School presentation material, October, 2008

37 FKI introduced its comprehensive self assessment tool, FKI BEX(Business Ethics Index) in 2007 to help corporations evaluate their business policy and practice in areas of social and environmental responsibilities, ranging from customers, employees, suppliers, business partners, shareholders, competitors and community, with specifications of each industry.

38 Yang, Se-Young, former head of CSR Dept. FKI, Corporate Ethics School presentation material, October, 2008

It is said that excessive exercise of ownership more than actual ownership share through circulated investment, illegal inheritance of ownership, limitation of independence of board of directors, accounting fraud and stock price manipulation are still left as problems of corporate governance and are regarded as one of the main reasons for so-called 'Korea Discount', undervalued stock prices of South Korean corporations. Limitation of independence and specialty of independent boards of directors sometimes results in the early retirement of members. A number of newspapers pointed out that there are some cases where independent members of a board of directors resign earlier than their terms, due mainly to the strong voice or influence of top management, especially when a change of ownership take place.³⁹

Among corporate watch NGOs and organizations, the most notable one dedicated in this effort is Korea Corporate Governance Service (KCGS). It also supports ICGN (International Corporate Governance Network)'s activities in South Korea including co-hosting annual meeting of 2008 "Globalisation of Capital Markets: Impact on Corporate Governance" with Korea Stock Exchange. KCGS has been conducting corporate governance ratings of listed companies with good practices. In 2008, Korea Telecom and KT & G received 'very strong' ratings, POSCO and Woori Financial Group, SK Telecom and other five corporations received 'strong' ratings, by respecting small shareholders rights, having an independent board of directors and other transparent and accountable corporate governance issues.⁴⁰

Samsung Group has experienced major changes from 2007 throughout trials and appeals on allegedly illegal wealth transfer and tax evasion, along with the resignation of Lee Kun-Hee, former Chairman. CSO criticized the judgment that gave him an acquittal. It will be important to see how Korean Chaebols address the issue of corporate governance in the future.

4. Reward and Incentive Structure

Clearly, UN related sensitivity has increased after UN Secretary General, Ban Ki-Moon's leadership. Global trends, standards and pressures of sustainability by inter-governmental organizations like the UN and its various initiatives such as the UN Global Compact, Principles of Responsible Investment and UNEP Finance Initiative, have been good encouragement for voluntary corporate actions.

Most of all, the main driver is that more than 70% of the Korean economy depends on an export oriented industrial structure. Government policy changes of big export markets are influential. Not only Korea's reputation, but also its export oriented business structure has made Korean business sensitive to international treaties and global regulations. Even though South Korea did not sign up to the Kyoto Protocol, many Korean corporations have already been adhering to international climate change rules. Also, ISO 26000 preparation is seriously underway by the Korean Standard

39 <http://www.asiae.co.kr/uhtml/read.jsp?idxno=2009012310140147725>

40 <http://www.cgs.or.kr/eng/index.asp>

Association with Korea working group.

Overseas big business vendors, rating organizations and SRI are also good drivers.⁴¹ Samsung Electronics joined EICC (Electronic Industry Code of Conduct) in 2007 and its impact has been meaningful in high technology industries.⁴² The number of reports from South Korea in CorporateRegister.com records jumped up from 1,845 in 2003 to 2,588 in 2007. The GRI report registration rate is almost four times more from 2003 to 2006, while the overall registration growth rate is nearly two times higher than previously.⁴³ Quantitative growth does not mean qualitative development but accumulation of these activities will set the path for authentic CR leadership of South Korea in the future.

Within South Korea, stimulation comes from all sectors. Under President Kim and Roh's administrations from 1998 to 2008, corporate community relations functions for corporate philanthropy were encouraged through private and public partnership. There was peer pressure too. Samsung Community Relation Group's Community Service Corps was established in 1997. This encouraged other Chaebols in the area of employee volunteerism by engaging their families, business partners and customers. Various recognition awards recognition cannot be overlooked.

Through a variety of law and policy frameworks that support sustainable management and CR, more incentives will be introduced. Considering the complex nature and daunting tasks of CR, leadership of CEOs and Chaebol owners is critical to implement strategic and proactive CR. Many Chaebols, including Hyundai-Kia Motors Group, form holistic companywide CSR committees including global leadership operations led by top management. This will become part of the fundamental infrastructure to make CR move into the mainstream market effectively.

V. Outlook

CR is no longer optional. South Korean corporations have begun to recognize it as a new management system that assists sustainability of business. However, the recent global financial crisis and slow down of the domestic and world economies may discourage the growing tide of TBL. Fierce competition in domestic and global market might lead to CR being put aside in favor of pursuing the financial bottom line.

In order to overcome financial adversities, corporations have conducted restructuring, tightened corporate structure and increased their efficiency. CR related departments were not exception. From the end of 2008 and the beginning of 2009, corporate

41 SAM, the sustainability investing specialist and Dow Jones Indexes, a global index provider, launched Dow Jones Sustainability Asia Pacific Indexes. The current composition includes 7 from South Korea out of 122 Asian sustainability leaders. Press Release of SAM and Dow Jones Indexes, March 3, 2009.

42 One of the 1st tier suppliers, e-Litecom even runs training regarding human rights, labor, environment and anti-corruption for its employees and sub-suppliers.

43 HERI, East Asia's Response: Comparative Analysis of CSR Performance among Chinese, Japanese and Korean companies listed in Fortune Global 500, HERI Sustainability Management Research 2008-1, Page 31-33

community involvement team and business ethics teams have been merged into one division and social contribution teams have been absorbed into sustainability reporting teams or business partner management teams responsible for CR functions.

If we see these trends positively, apart from decreased size of budgets, we may find three points in which we would expect future advancement for better CR. Firstly, we may regard this as a direction of escaping silo fragmentation, not as a way of reducing CR. Secondly, in order to prove outcomes and outputs in restricted budget structure, efficiency based performance assessment may be reinforced. This might encourage business integration with CR to obtain social and environmental ROI (Return on Investment), paving the way to focus on materiality more for strategic CR and sustainable management. Lastly, CR may find new dimensions in human rights and labor. Employee assistance programs may be connected with internal stakeholder considerations. The recent article of Sisa Journal “Human era may have come while management system era has gone”⁴⁴ introduced the importance of human respect management to increase the human bonds of employees. It also introduced a few good practices of reconciliation between labor unions and management for job sharing in the midst of an economic downturn.

It is said that opportunities come in difficult times. Not only South Korea, but all countries are going through a worldwide recession. It will be meaningful to see year by year whether or how CR will evolve. In a longitude line of past and present of South Korea’s historic and cultural backgrounds, it is important to notice that public, private and nonprofit sectors have all recognized the importance and impact of CR. They all know that without CR, corporations will not be successful. At least, it will be clear that CR practices will continue to grow in the long run. It will be meaningful to see how South Korea, as a country of emerging economies, will put into place Corporation 20/20 principles of corporate design in the future with both challenges and opportunities.

44 Lee, Chul-Hyun, “Human era may have come while management system era has gone” Sisa Journal, 2009, 1/27/2.3 No. 1005/1006