



REPORT
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SRI IN ASIAN EMERGING MARKETS:

SOUTH KOREA

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INTERNATIONAL FINANCE CORPORATION
World Bank Group

SRI in Asian Emerging Markets

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Methodology

This Report was produced in collaboration with researchers in each country. Research has largely been conducted by telephone, face to face interviews, media and internet searches.

Disclaimer

ASRIA does not guarantee that every relevant organisation and individual has been covered in each market. With the resources available in each market, the reports make every effort to focus on key areas of relevance, to deliver data that is accurate and opinions that are objective and balanced.

Foreword



The expansion of Asia's private sector and its accompanying investment opportunities are forever changing the global economy. Yet as home to roughly half of the world's population, rapid industrialization, expansion of information technology, and urbanization underway throughout East and South Asia pose enormous challenges that must be recognized by private investors and governments alike. Hundreds of millions of people are in the process of moving permanently from the countryside to cities. Rapidly expanding businesses are making further demands on resources. Throughout the region, clean water, clean air, biodiversity, fisheries, fertile soils, and improved standards of living are all at risk because of unsustainable development.

For the most part, portfolio investors in Asia have yet to explicitly recognize the complex array of issues that could hinder long-term private business and investment returns. The socially responsible investment industry - a \$2.4 trillion worldwide industry that includes 760 retail funds and hundreds of institutional investors - has only just begun surfacing in Asia and has yet to fully demonstrate how its techniques can contribute to business performance. Research commissioned by IFC on the SRI industry indicates that SRI assets amount to only \$2.2 billion in all emerging markets, including Asia. That is less than one tenth of 1 percent of the worldwide total. Only \$1 billion in SRI assets is held by developing country investors.

Evidence shows that SRI investment approaches provide returns at least as strong as funds that don't take social, environmental, or corporate governance factors into account. Well-constructed and well-managed SRI funds have consistently proven to match or outperform their benchmarks. In the context of such enormous challenges facing Asia today, SRI has potential for contributing further to improved environmental and social conditions. SRI investors can also be a factor in improving long-term economic competitiveness by positively influencing corporate behavior and governance.

The International Finance Corporation, the private sector arm of the World Bank Group, shares the caution and conservative nature of most other financial institutions, in line with our fiduciary responsibility to shareholders. Yet in the process of nearly 50 years experience investing in developing countries we have learned how good investment returns are compatible with creating employment, a healthy environment, and an improved quality of life in developing countries. We set high standards for corporate governance and environmental and social performance and innovation, not only to fulfill our development mission, but because our investments in nearly 3,000 companies in 140 countries have demonstrated that there are valuable business benefits from initiatives that help progress toward sustainable development. IFC's experience would indicate that SRI investors likewise may be able to gain insight and better exploit hidden market opportunities by focusing on sustainability leaders.

The International Finance Corporation is fortunate to have been able to work with a partner like ASRIA to bring the message of sustainable investment to a wider audience. SRI has great potential in the emerging markets. Realizing this potential requires objective and thorough analysis of the investment opportunities and barriers; targeted programs of research, awareness raising and capacity building; and strong international partnerships to influence framework conditions and catalyze the market. The pioneering research undertaken by ASRIA and its partners for this report is another significant step forward. More needs to be done, and IFC and its Sustainable Financial Markets Facility look forward to playing their part.

We are grateful to the governments of the Netherlands, Switzerland, and Norway, whose cofounding enabled IFC to sponsor this important work.

A handwritten signature in dark ink, appearing to read 'Javed Hamid', written in a cursive style.

Javed Hamid
Regional Director for East Asia & Pacific
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1.0 EXECUTIVE SUMMARY

SRI in Korea is still in its infancy. Encouragingly, however, one investment trust management company has formed and started marketing a Socially Responsible Investment (SRI) Fund as of June, 2003.

This report focuses on the specific details of Korea's movement forward and the potential for SRI. Furthermore, it examines how this is likely to develop in practice. As Korea is one of the more developed emerging markets with an increasingly sophisticated investment sector, more emphasis in this report has been placed on how SRI would apply to mutual funds and the relationship between SRI and listed companies, rather than on development funding, private equity and micro-finance.

This report concludes that SRI has very significant potential to flourish in Korea despite the present lack of SRI products in the Korean market.

Although public recognition of SRI is still low, results of a recent survey¹ concluded that interest and receptivity to the concept of SRI was very positive. The survey, by Economy 21, published in the Economy 21 weekly magazine, showed that, whilst only 3% had heard of SRI, 56.1% of those surveyed responded that SRI is an investment principle suited for the new economic environment. Investment professionals also responded positively, and whilst many had skeptical opinions about market acceptance of SRI, 33.3% of investment experts responded that they would not hesitate to take Social Responsibility Evaluation into account in their investment decisions as soon as reliable SRI data evaluating domestic corporates was available.

Above all, it is very encouraging that both the government and NGOs, as well as other leading public opinion makers, are starting to pay attention to SRI. At the 1st International SRI-Conference held in Korea², on 17th. June 2003, Kim Jin-Pyo, Deputy Prime Minister and minister of Finance and Economy, stated that the "Government will support the market's effort to adopt SRI positively, such as the development of an SRI Index".³ He also pledged that "from now on the Government will strive to promote the necessary conditions for corporations to put social responsibility into practice." This active support for the concept of SRI by a senior government representative is very notable.

Finally, though environmental reporting has become established in Korea with approximately 40 companies issues environmental reports (see 9.0), no companies have yet issued a social or sustainability report. However, some social organizations including the Citizens' Action Network (CAN) have begun to call for the introduction of corporate social reporting. Furthermore, Samsung Electronics Co. has become the first corporate to announce that it is preparing a sustainability report.

In conclusion therefore, though it is early days for SRI in Korea, the potential future for SRI in Korea looks very promising because overall the concept has met with favour from the public, the financial community, and senior government representatives.

The Korean market has very significant potential to make SRI flourish in spite of today's barren market conditions.

The "Government will support the market's effort to adopt SRI positively, such as the development of an SRI Index", Kim Jin-Pyo, Deputy Prime Minister.

¹ Domestic Market Potential Survey on SRI; Economy 21, No. 153; 17/6/2003. The survey was conducted during the period from 30/05/2003 to 5/06/2003. Sample 500 Koreans residing in 7 metropolitan cities in Korea, over the age of 20. For a presentation on the Survey results see: www.asria.org/events/korea/june03/index_html/lib/WonjaeLee.pdf or Section 6.

² 1st International SRI Conference in Korea, 17 June 2003, Seoul

³ www.asria.org/events/korea/june03/index_html/lib/JinPyoKim.pdf

2.0 SRI FUNDS

2.1 Domestic SRI Funds

There is presently one SRI fund marketed in Korea - 'the Samsung Eco-Fund.'

Samsung Eco-Fund⁴

The Samsung Eco-Fund, managed by Samsung Investment Trust Management⁵ is currently operated as an SRI Fund. The fund was launched in August, 2001, with an asset size of 8.6 billion KRW (Korean Won) (US\$ 7.28 million) in stocks, and 17.7 billion KRW (US\$ 15 million) in stocks/bonds. Research for the fund is conducted by the Samsung Global Environment Research Centre, founded in 1993 (See 3.01.03).

Data on Samsung
Eco-Fund in Korean
[www.samsungfund.com/
product/special/eco/
special02_2.shtml](http://www.samsungfund.com/product/special/eco/special02_2.shtml)

The Samsung Eco-Fund consists of two sub-funds:

Samsung Eco-Fund: Stock (over 60% of the asset is stocks) earnings rate was 39.25% from 16 August 2001 to 16 July 2003. For the recent 6 months, it has achieved an earnings rate of 14.61%. It holds assets of approximately 8.26 billion KRW (US\$7million).

Samsung Eco-Fund: Mixed (over 70% bonds) earnings rate was 14.87% from 16 August 2001 to 16 July 2003. For the recent 6 months, it has achieved an earnings rate of 3.92%. Its asset are about 14.16 billion KRW (US\$12million).

The Samsung Eco-Fund is the first and only SRI Fund which invests according to comprehensive SRI criteria.

However, at the end of last year, KYOBO Investment Trust Management Co., Ltd floated the concept of a 'Womens Employment Equality Fund', though this has yet to be launched.

There are also number of retail funds which make social contributions from their management profits. The '**Aid Fund for Children**'⁶ and the '**World Cup Dream Tree Nurturing Fund**'⁷ are representative examples of this. Investors have reacted very favourably to the fact that these funds make donations to social causes.

Meanwhile, there is also an initiative underway to register the first Korean corporate governance fund. Deutsch Investment Trust Management Corporation in partnership with the International Finance Corporation (IFC), are to introduce the corporate governance fund, which will specifically aim to invest in companies which are underdeveloped in terms of governance. The intention is to actively influence companies to improve their corporate governance and thereby raise their stock price. Although this is not an SRI fund, but a corporate governance fund, the initiative is worthy of attention.

It is also notable that SEI Asset Management Korea, a property management corporation funded by the IFC, have inserted a clause related to SRI in their fund contracts, which specify that it will not invest in corporations which are involved in the production or marketing of cigarettes, drugs and arms production or contribute to environment destruction. However, as of June, 2003, no fund operated by this policy had yet been launched.

⁴ Introduction to Samsung Eco-Fund (in Korean): www.samsungfund.com/product/special/eco/special02_2.shtml

⁵ www.samsunginv.com

⁶ Aid fund for Children: www.samsung.co.kr/community/about_community/community_volunteer02.html(Korean)

⁷ World Cup Dream Tree Nurturing Fund: www.medifund.co.kr/guide7.asp

2.2 Global SRI Funds Registered For Sale

None at present

2.3 Global SRI Funds With Significant Holdings In The Domestic Market

Innovest has conducted SRI research into Korean companies (see 3.02) so it is likely that some global SRI funds have limited holdings in Korean corporations. There is also a small dedicated Korean sub-fund managed by Kingsway Fund Management, in Hong Kong.

Kingsway Korea Fund

www.kingswayfm.com

Kingsway commits to screen all its funds against SRI criteria. The Kingsway Korea Fund is a sub-fund in their Mandatory Provident Fund (MPF) Master Trust Scheme. The evaluation process follows their 'SRI Values Screen' approach which provides a form of investment screening acceptable to a broad cross-section of the socially conscious investing community.

2.4 Private Equity Investment And International Development Funds

There is a growing interest in private equity investment in Korea due to the restructuring and reform of the corporate and finance sectors, the opening up of Korea to foreign investment and the pragmatic attitude of Korean corporates in Korea. For instance, a director of a major private equity fund focused on Korea noted that in their view "Korea, relative to the rest of Asia, has probably made the most progress in terms of restructuring and reforming. Secondly there has been a fundamental shift in the attitude of Korean corporates in general compared to prior to the crisis when it was one of the most closed markets to foreign investment."⁸

Much of Korea's past economic growth was based on its low cost base and emphasis on exports. This growth was stalled by the Asian economic crash in 1997. Since then Korea has made significant efforts to rectify weaknesses exposed by the crash. The results of these efforts are starting to become evident. For instance, CSLA, a leading investment bank specializing in emerging markets, in its annual report on corporate governance⁹ gave Korea a low score relative to other Asian countries in 2001 and 2002, but significantly upgraded its report in 2003 as a result of evidence of improved corporate governance awareness. These reforms have allowed Korea to emerge stronger and more focused than many of its competitors.¹⁰ However, there is little apparent evidence as yet that CSR or Sustainable investment policies are being emphasized by the Korean Government as important investment criteria.

With respect to international development agencies, as a relatively developed Asian country, Korea has not attracted the attention and investment of international development agency projects to the same extent as other Asian countries.

⁸ Finance Asia.com, "Private Equity Eyes Opportunities in Korea"; 28 July 2003; quoting JPMorgan Partners Asia managing director Eugene Suh; www.financeasia.com/articles/4CA3282F-6C1B-11D5-81CE0090277E174B.cfm

⁹ CLSA Report, Corporate Governance in Asia; Summary: www.acga-asia.org/loadfile.cfm?SITE_FILE_ID=140

¹⁰ For more background data on Korea see korea.net/ & www.kisc.org/

3.0 SRI RESEARCH

3.1 Domestic SRI Research

Several Organizations are making efforts to include the evaluation of SRI criteria in their research.

Research on Corporate Social Responsibility (CSR) for SRI is not yet widespread in the Korean corporate and finance sectors. However, several organizations are making efforts to broaden conventional financial reporting to include the evaluation of SRI criteria, in particular through the adoption of environmental management evaluations. Below are listed some Korean organisations which are involved in SRI/CSR evaluation and research activities.

3.1.1 Hankyoreh Corporate Evaluation Centre www.economy21.co.kr

The centre has been engaged in corporate evaluation since 2000, and since 2002 began to take an interest in SRI after 'Economy 21', reported on Socially Responsible Investment. Accordingly, the Centre co-hosted the 1st International SRI-Conference in Korea with 'Economy 21' and Eco-Frontier Co. in June 2003, in Seoul. Prior to this conference, the Centre carried out SRI related market research for the first time in Korea. The Centre has had financial experts evaluate the corporate transparency of almost all of the major companies listed on the Korean Stock Exchange and Kosdaq, on a half yearly basis since 2001. The center has also held 'Digital Awards' through evaluating the digital management level of Korean Companies belonging to the IT industry since 2000.

3.1.2 Eco-Frontier Co. www.ecofrontier.co.kr

Eco-Frontier, founded in 1995, is an environment knowledge service corporation which is active in the environmental policy and management strategy areas. The organisation performs studies related to government environment policies, such as an environment grade marking system and also environment reliability evaluation, etc. Recently the organization, formed a partnership with Innovest, an American environment credit rating organization, to carry out environmental evaluation, targeting leading Korean companies. Based on this evaluation it awards a credit rating, with the long-term aim of marketing its environment evaluation results to institutional investors. The organization is also aiming to widen its research criteria to evaluating wider and more intangible aspects of corporate value, in addition to environmental criteria. It also co-hosted the 1st International SRI-Conference in Korea in June, 2003.

3.1.3 Samsung Global Environment Research Centre www.greensamsung.com (Korean)

This research centre, founded in 1993, studies not only environment, security, and health related workplace control within Samsung, the biggest Korean conglomerate, but also domestic and foreign environmental policies.

It formed a contract with the Ministry of Commerce, Industry and Energy to design a 'Korean Environment Credit Rating Model' in Oct. 2001. It also took responsibility for facilitating the 'Samsung Eco-Fund's Superior Environment Management Award' in May, 2003.

In 30 June 2003, Samsung Securities, the exclusive sales agent of Samsung Eco-Fund, awarded \$20,000 to two environment-friendly small companies (Hanbo Nisco & Wondai Chemical) and one environment-friendly organization (the Environmental Foundation). The financial source of this award was from a 1.5% sales agency fee of the Samsung Eco-Fund aggregate asset.

3.2 International SRI Research Groups Covering The Domestic Market

Innovest, in co-operation with eco-frontier (see above 3.1.2). Innovest has conducted research on several Korean companies, including:

- Pohang Iron and Steel Co. Ltd
- Samsung Electronics Co. Ltd

4.0 SRI RELATED ORGANISATIONS, INCLUDING NGO'S' S

4.1 Korean NGOs On CSR

The 'Center for Corporate Social Responsibility' (CCSR) which was founded only a year ago, is the only Korean NGO focused on CSR and SRI. However, there are a few organizations with relatively deep interests in corporate social responsibility among traditional Korean NGOs.

The 'Center for Corporate Social Responsibility' (CCSR) argues that many Korean conglomerates are already for environmentally responsible management.

4.1.1 Citizens' Coalition for Economic Justice (CCEJ) www.ccej.or.kr

CCEJ is a citizens organization established in 1989, with the goal of accomplishing economic justice based on the fair distribution of profit. Since 1991, the 'Korean Economic Justice Institute', a subsidiary of CCEJ, has contributed to raising corporate social responsibility, awarding an 'Economic Justice Corporate Award'¹¹ jointly with the national newspaper Hankyoreh Shinmun (www.hani.co.kr). The award is given to listed manufacturing companies according to its own Economic Justice Index Model.

4.1.2 Citizens' Action Network (CAN) www.wv.or.kr

This organization, which was founded in 1999, conducts citizens' action on the basis of citizens' participation through new digital media such as the 'Internet'. CAN has launched the 'Good Corporate Making Movement' campaign, as one of its five primary projects. The movement is aimed at spreading Corporate Social Responsibility as a new value standard of corporate management. CAN has reported the results of its Corporate Social Responsibility Evaluation under the name 'Pole to Pole of Corporate Social Responsibility', since 2001.

4.1.3 The Center for Corporate Social Responsibility www.socialinvest.or.kr

The organization has taken a leading part in a great deal of activities for Corporate Social Responsibility since it was founded in 2002. Recently, it made an effort to gather public opinions about corporate social report submissions. CCSR's main interest is social reporting (as yet not sustainability). In some ways, they consider that the notion of sustainability in Korea focuses too strongly on the environment. CCSR argues that many conglomerates are ready for environmentally responsible management, but they are not yet interested in socially responsible management.

¹¹ www.keji.or.kr/pds/list.asp?b_code=keji05

5.0 GOVERNMENT INITIATIVES

As yet, no government ministry or department has taken overall responsibility for SRI, however some have shown SRI related initiative and receptivity to the idea. The 'Stock Institute Section' within the Ministry of Finance and Economy (www.mofe.go.kr), undertakes stock market related policy work. Very significantly it also provided administrative support to the 1st International SRI-Conference. In addition, the Environment Economy Section of the Ministry of the Environment (www.me.go.kr) pays attention to economic and environment related issues. The Presidential Commission on Sustainable Development (www.pcsd.go.kr), which is directly answerable to the President, plays a role in advising policy to harmonize economic development and environmental conservation. The Ministry of the Environment (www.me.go.kr) hosts an Environment Management Award every year. The purpose of this award is to induce corporates to adopt environmental factors into their management and to encourage those corporates which have contributed towards environmental protection.

6.0 PUBLIC AWARENESS

'Economy 21' and Hankyoreh Corporate Evaluation Center jointly carried out a survey on the potential for SRI in the Korean market: 'Domestic Market Potential Survey on SRI'. The survey was conducted during the period 30/05/2003 to 05/06/2003 and published in the Economy 21 Magazine, No.153. The surveyed group consisted of 500 general citizens over the age of 20, and 44 investment specialists such as fund managers or analysts, living in the metropolitan areas such as Seoul.

Korean government departments have shown receptivity and support for SRI.

Findings showed that many Koreans are as yet unaware of SRI, but expressed considerable preference to this new concept. Moreover, it can be said that a great number of investment experts have an inclination to consider corporate social achievement in future investment decisions. Of special note, the results would indicate that Koreans' viewpoint of corporations was similar to basic SRI principles. It was also noted that Koreans believe that corporates should be managed for the benefit of all stakeholders, including its workers and the community, rather than only for its shareholders.

Recognition and Understanding of SRI

Recognition level for SRI concept was very low. Only 3% of the respondents have ever heard of and understood the concept and details of Socially Responsible Investment, furthermore 8.2% answered that whilst they had heard of the concept they were unfamiliar with the details. 9.1% among those experienced in stock investment and 30.0% of investment experts answered that they did know details of SRI.

Of the 44 investment experts surveyed, including domestic fund manager analysts, (65.2%) chose 'not very affirmative' as their response to whether or not people will understand when SRI related financial goods are sold. More positive answers such as 'relatively affirmative' (29.0%) and 'very affirmative' (5.8%) were smaller in number.

SRI Preference

However, an optimistic sign is that, despite the low level of recognition of SRI concepts, citizens' preference levels turned out to be very high after the concept of SRI was explained.

Over half of respondents chose either 'very affirmative'(15.6%), or 'relatively affirmative'(40.5%) on whether SRI was a correct investment principle suited for the new economic environment. 23.6% of respondents replied 'negative'. Moreover, 74.3% of experienced stock investors and 75.3% of experienced fund investors replied 'affirmative' on the same question.

The result indicated that many investors already consider corporate social contribution as an important standard in investment. 59% of experienced stock fund investors answered that they consider corporate social contribution as an important potential factor in investment. ('very important' 17.4%, 'important' 41.6%)

The Potential for Investing in SRI Funds

When questioned on their willingness to invest in SRI Funds, many general citizens voiced considerable inclination to invest along SRI related financial strategies. Moreover, experienced investors were even more willing to do so.

When questioned: "Are you inclined to invest if a financial institution markets an SRI fund?" 34.3% of 500 general citizens replied 'yes', while 46.6% replied 'no' and 19.1% replied 'not determined yet'. Of those more qualified, 38.0% of stock investing experienced citizens chose 'yes', while 51.0% of fund investing experienced citizens showed the same inclination.

It seems that investment experts are firmly prepared for investing in SRI options as well. More than two thirds of investment experts answered that SRI is the proper investment principle fitted for the new economic environment. When the question was posed to them, of these 32.4 % of investment experts in Korea answered 'necessary and timely' to the necessity of SRI principles being introduced into Korea, while 54.1% chose 'necessary but premature', and importantly only 8.3% deemed SRI principles 'not necessary'.

Importantly, 33.3% of investment experts surveyed, showed a strong willingness to refer to an analysis of corporate social responsibility when taking investment decisions, so long as the analysis could be considered objective. This result implies that one third of investment experts believe that it is necessary to include SRI principles in corporate analysis or when taking investment decisions.

Understanding of the Role of Corporations

The result indicated that Koreans' basic viewpoint of a corporate is aligned to that of the principles of SRI. It implies that Koreans agree with the concept of stakeholder capitalism, meaning that a corporate should be managed for the benefit of the wider community, not based on shareholder capitalism, meaning that it should be managed only for shareholders.

When questioned "Who do you think should govern a corporation?" The majority of Koreans answered that all members of society, not shareholders or executives, should govern a corporation. To this question, styled as a multiple choice 39.7% of respondents chose 'all members of society' should govern a corporation, while 27.3% voted 'workers', and 21.2% selected 'shareholders'.

Stock-investing experienced citizens seen to share the similar opinions. 37.1% of them chose the option 'all members of society', while 33.8% picked 'shareholders', and 29.5% 'workers'. This further implies that investors also believe that all members of society should share the benefits of corporate management.

When questioned "To whom do you think the special benefit should be given back if a heavy chemical corporation which is being accused of discharging contaminated water made profit?" respondents showed similar tendencies. 56.3% of general citizens and 49.49% of experienced stock investors answered that the benefit should be given back to local residents. Meanwhile, only 8.4% of the former and 11.6% of the latter chose 'to the investors'.

Religious Groups

An issue not covered in the survey, but worth mentioning, is the important role that religion plays in Korean society. Over 50% of Koreans profess to belong to religious faiths¹² and organized religion plays a significant role in Korean life. With respect to investment, Korean religious groups have not played a notable role up to the present, however some have been active in pressing corporates to adopt improved social standards. It is likely, that Korean religious organisations may find alignment in SRI principles.

59% of experienced stock fund investors consider corporate social contribution as an important factor in investment.

Over 74% of experienced stock and fund investors said that SRI was a correct investment principle suited for the new economic environment.

The majority of Koreans support the concept of stakeholder capitalism.

¹² www.library.uu.nl/wesp/populstat/Asia/skoreag.htm religious affiliation: Buddhist 23%, Protestant 20%, Roman Catholic 7%, Confucian 0,5%; non religious 49%

7.0 CORPORATE GOVERNANCE INITIATIVES & SHAREHOLDER ACTIVISM

Domestic initiatives in the corporate governance area have been very active in Korea. In particular, the Government and NGOs have carried out various activities to improve corporate governance. There have been a series of policy reforms to change the chaebol system, a plutocracy which has been identified as one of the prime reasons for the financial crisis in 1997. This phase of reforming the chaebols and improving corporate governance has almost been fully completed.

7.1 Government's Effort To Improve Corporate Governance

7.1.1 The Government's legislative system in relation to the improvement of Corporate Governance

The director system and board of directors of a corporate supply a legal basis for Korean corporate governance. In addition to this, the Korean government has attempted to enforce stockholder-centered management over the past few years via the following actions:

- **The fidelity clause** - the Government recently established a fidelity clause for directors (clause 3, Art 382 of the commercial law), which reinforces the board of directors, a keynote of Corporate Governance. It asserts that directors who are appointed in the general meeting of stockholders, have every right to decide the business management and to direct the management of the representative director except for the rights of the general meeting of stockholders.(Clause 2, Art 393 of the commercial law)
- **External audit** - according to the 'law on external audits' an external audit by a certificated public accountant is mandatory for a corporate over a certain size
- **External board member system** - the Government has strengthened the external director system, thereby increasing the shareholders' and society's monitoring role on the executive managers. Listed corporate and financial organizations having more than 2 trillion KRW (US \$ 1.7billion) in nominal assets should have at least 3 external directors
- **Centralized (cumulative total) voting system** - Government has revised the commercial law, and introduced Centralization Voting System to make it possible to appoint a director representing the benefit of the minor stockholders.
- **Auditing committee introduction** - the Government introduced an auditing committee system, especially forcing listed corporations with assets over 2 trillion KRW (US \$1.7 billion) to appoint a full-time inspector and compose an inspection committee
- **Stock option system improvement** - the Government, in July 2000, mandated that stock options given to executives are treated as a cost, and has established a 'Stock Option Standard Model' to ensure that an executive cannot get so many stock options that he/she may encroach on the values of shareholders.

7.1.2 Future policies for improvement of corporate governance structure

The Korean government will continue to make efforts to improve corporate governance. Kim Jin-Pyo, the Deputy Prime Minister and Minister of Finance and Economy, joined the 1st International SRI-Conference held in Seoul on 17th, June, stating that the "Government will continue to make efforts to improve corporate governance such as improving corporate accounting transparency". Proposed improvements include the following:

- **Group litigation system** - the Government is planning to introduce a group litigation system to reinforce the rights of shareholders. The bill on group litigation system is now pending in the National Assembly (Congress), and if passed, the system will be implemented next year
- **Corporate governance index** - the Government has a plan to support stock related organizations, selecting 50 leading companies with good governance, and announce a 'Corporate Governance Index' from September, 2003
- **Corporate governance rating announcement** - the Government is scheduled to announce a corporate governance rating index after 2004, as a service to investors. The extent of the coverage of the evaluation is not decided yet in detail.

7.2 NGO's Activities Related To Corporate Governance

The minority Shareholder Movement for shareholder value started first among the NGOs. At first, the 'Shareholder Value Movement' was primarily focused on confronting the plutocratic power of the chaebols and aimed at preventing them exercising tyrannical control over their management. The chaebols were able to wield control over the majority of companies through complex cross shareholding arrangements and controlling allocation of capital. At present the 'People's Solidarity for Participatory Democracy' (PSPD) and Citizens' Action Network (CAN) are the most influential NGOs. Whilst PSPD is the most renowned advocate in Korea of minority shareholder rights against Korean *Chaebols*, CAN is more interested in the broader agenda of stakeholders rights. The PSPD is credited with having achieved a great deal with its strategy of curbing the plutocracies' anti-shareholder actions, through encouraging the exercise of minority shareholder rights.

Korea has an active 'Shareholder Value Movement' driven by NGOs.

7.2.1 People's Solidarity for Participatory Democracy (PSPD)

www.peoplepower21.org

The PSPD is carrying out a movement for the improvement of corporate governance. This is being led by the Economic Reformation Center, a subsidiary of the PSPD. The Economic Reformation Center, led by Kim Sang-Jo, a professor of Hansung University, has been active in the inspection of the Chaebol's plutocracies. This has been achieved by activating the rights of minority shareholders, by carrying out a series of citizens' activities such as public suits or boycotts over the illegal actions of plutocracy executives, monitoring the government's efforts to reform the plutocracies, and campaigning for the legal improvement of corporate governance.

7.2.2 Citizens' Action Network (CAN)

www.ww.or.kr

CAN is carrying out a variety of activities to encourage the formation of a stock market ruled by fair principles as well as SRI related activities as previously mentioned. CAN also has plans to improve the transparency of the IPO market through the development of an index as well as issuing reports on the market and corporate behaviour. Phil-Sang Lee, a professor at Korea University, carries responsibility for this initiative.

7.3 Consulting Companies And Research Centers On Governance Structure

Recently, activities related to corporate governance which were begun by the NGOs are being taken up by private businesses, or government-supported business organizations. One such leading initiative is the 'Center for Good Corporate Governance'. Another important initiative providing support to the corporate sector and to the general public is the 'Corporate Governance Service'.

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7.3.1 Center for Good Corporate Governance

www.cgcg.or.kr

CGCG is a business corporation established by the likes of Mr. Jang Ha-Sung, a professor of Korea University, who founded the minority shareholder movement for the first time in Korea. Attorney Kim Joo-Young is the head of this corporation. The Center is undertaking research on the most desirable models of corporate governance for Korean corporates to adopt in the future. It has issued the first quarterly periodical on corporate governance: 'The Quarterly Journal of Corporate Governance'. In addition to this, the Center supplies information and provides consulting services on corporate governance, to the leading Korean companies in Korea, to the markets and to investors.

7.3.2 Corporate Governance Service

www.cgs.or.kr

CGS is a non-business corporation which consists of 6 organizations. These are the Korean Stock Exchange, KOSDAQ, the Korean Securities Dealers Association, the Korean Listed Companies Association, the Korean Investment Trust Companies Association, KOSDAQCA. The current president of the centre is Kwang-Sun Jeong, a professor of Choong-Ang University. The CGS works to develop policy in relation to corporate governance, to find and promote companies with superior corporate governance, to educate employees of companies, and to revise the model corporate choice rule for constructing corporate governance. The centre has been selecting and awarding 'Corporate Governance Model Companies' since 2001.

8.0 CORPORATE DEVELOPMENTS AND RESPONSE

Since the financial crisis of 1997, Korean enterprises have adopted management policies which take into consideration, corporate governance improvement and shareholder-centered management. These management initiatives have been supported by the strong influence of foreign investors on the domestic market as well as by local NGO's and business organisations. In addition to this, Korean enterprises have been influenced by the recent scandals befalling world-famous enterprises, such as Enron. There has also been a movement to include 'environmental management' or 'ethical management' within the focus of management principles. The general trend has been to adopt the concept of Corporate Social Responsibility (CSR). However as yet, management policies have not yet fully absorbed some of the more comprehensive and scientific aspects of CSR.

8.1 Report Issuing Status

Environmental Reporting:

Over forty companies including Korean Airline, Samsung Electronics, Samsung Electrics, Samsung SDI, Korea Water Resources Corporation, Yuhan Kimberly, POSCO, Hyundai Motor Company, LG Electronics, LG Chemicals, have or are issuing environmental reports.

Reports in English on-line include the following:

POSCO:

www.posco.co.kr/en/sustain/environment04_01.html

Samsung Electronics:

www.samsung.com/AboutSAMSUNG/SocialCommitment/EHSReport/GreenManagementReport/annual_EHS.htm

Environmental Reporting: Over 40 companies have or are issuing environment reports.

The IFC obligated Hana Bank (www.hanabank.co.kr), one of the four largest banks in Korea, to set up an environmental management system and submit an annual environment report before it would invest in the bank and support its merger with Seoul Bank.¹³

Social Reporting:

No corporate has yet issued a social report. However many companies have been issuing society contribution reports to let the public know the details of their corporate charitable activity.

Sustainability report:

Samsung Electronics is presently preparing to issue such a report.

¹³ ifcIn001.worldbank.org/IFCExt/spiwebsite1.nsf/831f47a59a4afd3c85256d89003302e8/0c0d719d5feb9d5485256c72006e1744?OpenDocument

8.2 Environment Management

Many of the larger Korean corporations have invested in improved environmental management. The following example is a recent notable example, where the company has placed environmental management as a core strategy for its future.

Hyundai Motor Company / KIA Motors - Jeong Mong-Gu, the President of Hyundai Motor Company, which is Korea's biggest motor manufacturing corporation, announced that between now and 2010 he would invest 1.3 trillion KRM (US \$1.1billion) on internal environmental management, heralding environment friendly management as the enterprise's core strategy.

Samsung Electronics Co. This is another corporate example. The company has set 5 criteria for management, being the greening of management, products, processes, the work place and the local community.

8.3 Social And Ethical Transparency

There is very little reporting on social issues by Korean corporations. However, four significant examples that have been reported are as follows:

Samsung - From 2003 onwards, Samsung, the biggest conglomerate in Korea, has made it mandatory for employees to report on senior officials' delinquency or unjust orders.

LG - LG, the second largest conglomerate, constructed a section on their website promoting ethical corporate management and seeking to abolish unjust actions by the company against its affiliate organizations and other unfair business practices. ethics.lg.co.kr/index.jsp

POSCO - the worldwide steel corporation, POSCO, recently declared its adherence to ethical standards, and is supposed to continuously monitor the application of ethical evaluation models to its business.

KUMHO - KUMHO, (owner of Asiana Air Line, Korea's second largest airline)and its associated companies' representatives signed an 'Agreement for Ethical Management'. KUMHO declared that it would suspend any contract as soon as any unjust or dishonest business acts were revealed.

9.0 COMMUNITY INVESTMENT AND MICRO-FINANCE

Though corporates in Korea, as mentioned above (8.01) regularly issue reports of their charitable contributions, few examples could be found of Korean corporates or financial organizations investing in micro-finance or similar grass-roots development programmes.

One example of micro-credit is Joyful Union. Joyful Union, an organization under the Yeheun Sahrang Nahum Committee (YSNC), manages microcredit projects following the Grameen Bank (GB) Replication Program. One of its primary goals is educating people to achieve economic independence and self-sufficiency. Grameen Trust of Bangladesh and CITIBANK Korea are collaborating with Joyful Union.

As of January 2001, Joyful Union has disbursed a total of 12,023,000 KRW (US \$ 10,200), of which 2,180,043 KRW (US \$ 1,850) has already been repaid. The repayment rate is 100%. Loans are usually used for preparation and sale of food products, farming, poultry, and so on. At present, Grameen Trust has arranged training programs for the staff of YSNC & Joyful Union, to help them with successful implementation of the microcredit program, which includes looking into GB's projects, how loans are given out and how to best utilize them, following the Grameen methodology.¹⁴

10.0 ASSESSMENT OF THE FUTURE MARKET FOR SRI

Drivers for SRI in Korea

- the emergence of a strong civil society
- civil society values increasingly harmonise with values of SRI
- vibrant religious communities are a potential market for SRI funds
- recent survey shows support for SRI from the public and the investment community
- mutual fund industry well established in Korea
- first steps already, with a domestic SRI fund and research providers in place
- strong Government support for corporate governance and for SRI.

Conclusion

- important to see the existing SRI fund and SRI research evolve and succeed to encourage quicker growth in the industry
- potential role also for global SRI funds to help stimulate and educate the market
- SRI may have the strongest potential for rapid adoption of SRI of all Asian emerging markets

¹⁴ From: Grameen Dialogue; 2001; Korea Country Report; www.grameen-info.org/dialogue/dialogue46/crKorea.html

Korea is still un-tilled land for SRI. However it has a potential to prosper and produce an impressive harvest, but only if there is timely rain.

Now the first ritual for that rain is on the way. The press and NGOs are carrying out public campaigns on a significant scale, which will in time invoke people's potential preference to SRI and increase public recognition of its advantages. Even though there are few people who are familiar with SRI, the fact that many investors had an inclination to join SRI related funds after understanding its concept is a positive sign for success in the future.

Public campaigns could well be the means to pressure listed companies to issue environmental, social and sustainability reports. Only after companies disclose their environmental and social achievements to the public will it be possible to construct a reliable SRI evaluation system. This increase in company data and evaluation, providing a reliable SRI evaluation system, would be the second ritual for rain, and encourage the growth of SRI to enter into full swing. Judging from the fact that a majority of investment experts indicated that they would be willing to take SRI criteria into account when making investment decisions if reliable data was available, it is very important that this is provided.

After firstly encouraging public support and secondly providing objective research data and SRI investment models for investment experts, the third step should be finding a 'Rainmaker.' To ensure that SRI is firmly established in the market a leading fund, applying SRI principles and managing reasonable financial returns, should appear as a comet, sparking further public and financial market interest in SRI products. The establishment of the Samsung Eco-fund is already a strong step in this direction.

The sight of millions of Red Devils gathered in front of City Hall Square during the 2002 World Cup and the election of President Roh, a high school graduate, in a come-from-behind success in a seemingly hopeless election last year, are clear signs of the Korean people's passion and enthusiasm. The Korean people also hold strong values that could favour SRI. For instance, 51% are members of religious groups, which are notably well organized and active in Korea, and could potentially provide a market for SRI funds. One could therefore see the potential for Korean investors to switch quickly from a primary focus on economic development to a stronger concern for socially and ecologically appropriate investment and development. Such would have a great potential bearing on the future of SRI in Korea and help establish it in the financial markets.

Furthermore, if a significant foreign SRI fund was to act as the rainmaker and successfully invest and market itself in Korea this would provide the necessary model and help the advance of SRI at greater speed.

11.0 RESEARCH PARTNER

Won-Jae Lee, staff writer, Economy 21

Won-Jae Lee has been working as a financial journalist for 6 years in Seoul, writing in various media for Hankyoreh, an independent media group which is focused on social responsibility in Korea. As a staff-writer, he has mainly covered domestic and international stock market analysis, corporate financial activities, and corporate governance & responsibility. Other than that, he has carried out corporate evaluation projects and market research projects related to the financial markets and corporate finance. He has undertaken corporate governance evaluation on Korean companies for 3 years, evaluation on Korean investment brokerage firms, and SRI market research. From August 2003, he is attending an MBA program at MIT, Cambridge, USA for 2 years.

Kyung-Sook Lee, staff writer, Economy21

Kyung-Sook Lee reports for Hankyoreh's economics magazine 'Economy21' in Seoul, Korea. Having been working in Hankyoreh weekly media including 'Economy21' and the investment magazine 'Thinkmoney'. She has been mainly analyzing financial issues, domestic and international stock markets, bond markets, and Korean financial policy. Hankyoreh is a media group which is focused on social responsibility for investment, businesses, economic policies, etc.

Won-Il Park, consultant, Hankyoreh Corporate Evaluation Center

Won-Il Park has been working as a consultant in Hankyoreh for 3 years, concentrating on corporate evaluation and financial affairs. Before joining Hankyoreh, he worked in Hyundai Mobis & Hyundai Motor Company, which are presently leading companies in the automobile industry in Korea. During that time he had experience in the field of accounting & financing. His current interests are in the development of Sustainability Reporting Guidelines (SRG) evaluation systems in Korea.

12.0 GLOSSARY

CAN	Citizens' Action Network
CCSR	Centre for Corporate Social Responsibility
CDEJ	Citizens' Coalition for Economic Justice
CGCG	Centre for Good Corporate Governance
CGS	Corporate Governance Service
CSR	Corporate Social Responsibility
GB	Grameen Bank
IFC	International Finance Centre
KRW	Korean Won
NGO	Non Governmental Organisation
PSPD	People's Solidarity for Participatory Democracy
YSNC	Yeheun Sahrang Nahum Committee

ASrIA, Association for the Sustainable and Responsible Investment in Asia www.asria.org

ASrIA is a not-for-profit membership association dedicated to promoting sustainable and responsible investment (SRI) practice in Asia. ASrIA has over 100 members including investment institutions managing over US\$2 trillion in assets. In order to raise awareness about SRI, ASrIA has run conferences, seminars and workshops, and published wide-ranging research on SRI issues. ASrIA has also created a network of people and organizations committed to developing SRI in Asia. ASrIA's website, www.asria.org, is the primary resource for SRI in Asia, already attracting over 1,800 page views per day and 5,000 subscribers to the regular e-bulletin.

What is SRI?

Sustainable and Responsible Investment (SRI), also known as Socially Responsible Investment, is investment which allows investors to take into account wider concerns, such as social justice, economic development, peace or a healthy environment, as well as conventional financial considerations.

The most successful SRI funds provide investors with dual returns:

- Financial returns that compare well to, and often exceeding, the returns of conventional investments
- Social and environmental rewards that go beyond the direct financial return to the investor

SRI is therefore a positive economic choice about the way we live and the world we live in.