The changing landscape of Corporate Social Responsibility in Korea*

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ABSTRACT
This paper examines the changing landscape of corporate social responsibility (CSR) in Korea, paying attention to the rapid shifts in the national institutional arrangements and corporate governance since the 1997 Asian financial crisis and its implications for CSR. Prior to the crisis, CSR in Korea was largely characterized by development CSR, typical of State-led developing market economies. But since the crisis, the Korean economy has been under great pressure to move toward corporate governance of stockholder capitalism, which would be accompanied by a competitive motivation for CSR. However, corporate governance reforms have been far from complete and have also created a number of problems. In the context of income polarization and divergent performance between large and smaller companies, both the public and the State have started to demand greater social responsibility on the part of large Korean firms. Consequently, this study suggests that the current CSR landscape in Korea is characterized by a mixture of development CSR of the past and competitive CSR of emerging stockholder capitalism.

Keywords: Corporate social responsibility, Corporate governance and CSR, Developmental CSR, Stockholder capitalism.

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**Introduction**

Recent studies have suggested that the meaning and practice of corporate social responsibility (CSR) differ across countries and also across time. Traditionally, literature on CSR focused on developed economies, including the United States and Western Europe (e.g., Albareda et al., 2006; Doh & Guay, 2006; Epstein, 1989; Gray et al., 1995; Langlois & Schlegelmilch, 1990; Maignan & Ferrell, 2000; Maignan & Ralston, 2002; Strike et al., 2006; Tschopp, 2005), and Japan (e.g., Fukukawa & Moon, 2004; Fukukawa & Teramoto, 2009; Lewin et al., 1995; Wokutch, 1990; Wokutch & Shepard, 1999). The heavy bias of literature on CSR in developed economies may reflect the West-centric origins, philosophies, and agenda-setting of “corporate social responsibility” (Chapple & Moon, 2005; Kemp, 2001) and because many of the largest corporations are based on developed economies.

But in addition to these studies, there is a small but growing body of literature which examines CSR in different national contexts. Scholars such as Baskin (2006), Blowfield and Frynas (2005), Frynas (2006) and Visser (2008) have looked at CSR in the developing world as a whole, with country-specific studies within the developing world including those in Asia (e.g., Birch & Moon, 2004; Chapple & Moon, 2005; Ramasamy & Ting, 2004; Welford, 2005; Zhuang & Wheale, 2004), Africa (e.g., Malan, 2005; Visser, 2005, 2006), and Latin America (e.g., Griesse, 2007; Haslam, 2007; Newell & Muro, 2006; Vivarta & Canela, 2006; Weyzig, 2006). The growth in such studies may reflect the need to better understand the role and impact of CSR on developing economies, particularly given the movement of multinational corporations’ operations overseas and the subsequent impact of corporate activities on the local community, as well as growing interest in the culture and mechanisms of the business environment, particularly with regards to CSR in developing economies.

The developed-developing discourse suggests that, among other things, a country’s level of economic development impacts the perception and practice of CSR. The literature thus takes into account differences in history, culture, socioeconomic priorities, and other country-specific factors which contribute to the development of local CSR. The research on the CSR of emerging economies has increasingly grown, including in-depth studies on Latin American countries such as Mexico and Brazil. East Asian economies have received some attention as well, including a regional study on East Asia by Cheung et al. (2010). But within East Asia, there remains a paucity of research on Korea, a country known to have shown some of the fastest growth in the world and growing influence on global economic affairs, with some exceptions...
including a recent study by Nam and Jun (2011). In addition, given Korea’s swift economic growth and dramatic political transformation in just the past few decades, Korea provides for a unique platform from which to analyze and understand the impact of relevant internal and external drivers that have shaped the business system in general, and the concept and practice of CSR in particular.

This paper aims to contribute to existing literature by examining the changing landscape of CSR in Korea by paying attention to the change in the national institutional arrangements and corporate governance over time. For this purpose, the current study compares the structure of the national business system including the system of corporate governance and role of the State prior to and following the 1997 Asian financial crisis. In the following sections, this paper discusses comparative perspectives on CSR, the evolution of corporate governance and CSR in Korea, unique characteristics of CSR in Korea, and concludes with final thoughts.

**Comparative Perspective on CSR**

On the one hand, the term “corporate social responsibility” (CSR) remains contested and overlaps with concepts such as corporate citizenship, sustainable business, and business ethics. But at its essence, CSR refers to corporate responsiveness to social agendas with regards to corporate behavior and performance in light of these responsibilities (Matten & Moon, 2004). At a global level, research has examined the potential convergence of CSR given international standardization and reporting, possibly reflecting a broad alignment of core issues and values with regards to CSR (e.g., Chen & Bouvain, 2009; Misani, 2010). However, given that social agendas are largely driven by local culture, expectations, and priorities (and that there may be many roads to international standardization), many studies have explored the meaning and practice of CSR within a range of geographic contexts.

The question of whether the forms and functions of CSR vary depending on national context has drawn increasing attention. Comparative literature on CSR has suggested that firms in different countries approach CSR differently, although the mechanisms underpinning this may not be clear. For example, the traditional CSR pyramid outlined by Carroll (1991) suggests that the range of obligations corporations have to society embody economic, legal, ethical, and philanthropic (or discretionary) responsibilities (in that order). While the four levels are not mutually exclusive, cumulative, nor additive, Carroll (1991) suggests that the order of responsibilities reflects each group’s fundamental importance. But in reviewing the applicability of this model for developing countries, particularly those in Africa, Visser (2006) argues that...
the classic, “American” ordering does not reflect the relative priorities of CSR in Africa and may not be the best model for understanding CSR in general.

To reflect potential divergences in CSR practices, several studies focus on specific drivers of CSR depending on national context (e.g., Nam & Jun, 2011; Visser, 2008). Visser (2008) highlights ten drivers that may shape the practice of CSR in developing countries, including internal drivers such as cultural tradition, political reform, socio-economic priorities, governance gaps, crisis response, and market access, as well as external drivers such as international standardization, investment incentives, stakeholder activism, and supply chain. Building off this framework to a study of an emerging economy, Nam and Jun (2011) suggest that internal drivers such as political reform and crisis response and external drivers such as stakeholder activism and international standardization are most pertinent to Korea’s case. The study also extends this group of literature by suggesting that particularly in the context of emerging economies, it is important to look at the globalization of firm operations as an additional driver in the development and practice of CSR.

In addition to broader studies on CSR in developing countries (Baskin, 2006; Chapple & Moon, 2005; Hopkins, 2007), recent studies attempt to pinpoint specific mechanisms through in-depth comparative studies (e.g., Choi & Aguilera, 2009; Kang & Moon, 2012). Choi and Aguilera (2009) analyze the characteristics of CSR in Korea and Japan in terms of the different influence that local actors exercise on their respective CSR practices, while Kang and Moon (2012) argue that CSR assumes different forms and serves different functions in different contexts and at different times. Specifically, Kang and Moon (2012) analyze why and how firms’ approaches to CSR differ across countries by drawing on institutional theory and the institutionalist arguments of the comparative capitalism literature. The authors separate CSR from corporate governance and identify corporate governance as the missing link between the broader institutional arrangements that govern finance and labor, and CSR. CSR is seen as complementing corporate governance systems. As change in the broader institutional arrangements and corporate governance occurs, CSR reflects and facilitates this change.

In analyzing the cases of France and Korea, the authors argue that the key characteristic of the corporate governance system is that the most powerful stakeholder is the State and the State works closely with top management to create a distinctive corporate governance system (i.e., a “public value” system) in which State agendas are given primacy and cultivate the view of the firm as pseudo-public institutions regardless of actual ownership. In sum, a public value system is characterized by top managers who are sensitive to the demands of the State, which in turn induces a developmental motivation for CSR.
**Evolution of CSR in Korea**

In examining the evolution of CSR in Korea, this paper focuses on the corporate governance system and role of the State as highlighted by Kang and Moon (2012) while also referencing a previous analysis on the historical development of CSR in Korea by Nam and Jun (2011). This section compares the period before and after the Asian financial crisis of the late 1990s as the crisis marks a significant turning point in defining the role of the firm (as well as CSR) in the economy as well as visible and drastic changes in the relationship between corporations and the State.

1. **Pre-Asian financial crisis period - developmental CSR**

As noted by Nam and Jun (2011), the pre-crisis period can be divided into two parts: (1) the period between the 1960s and 1987; and (2) the period between 1988 and 1997. During the period between the 1960s and 1987, the government launched a program of rapid industrialization based on exports through a series of five-year economic development plans. This meant that the State targeted which industries would be developed and relied on the participation of *chaebols* (i.e., large family-owned conglomerates) to carry these plans out. The government provided financial incentives to *chaebols* to guarantee their cooperation, including preferential treatment in obtaining low-interest bank loans, import privileges, permission to borrow from foreign sources, and tax benefits, and firms were largely left untouched if they continued to grow and create jobs (Kim, 2005). The State relied on *chaebols* to carry out their economic plans and stimulate postwar growth, which in turn would legitimize the government in the eyes of the public. Thus, this period saw elements of both State-led economic development and increasingly stronger ties between business and State. Firms were primarily accountable to the State during this period, and were effectively insulated from the imposition of social responsibilities other than that of increasing profit.

Through to the 1980s, *chaebols* grew rapidly and their growth was a key contributor to Korea's overall economic development. *Chaebols* gradually reduced their dependence on the State and by the mid- to late-1980s, it became clear that Korea’s formula for economic growth (i.e., a strong, comprehensive developmental State, a close alliance between the State and the *chaebol*, and the exclusion and repression of labor), which worked well during the 1960s and 1970s, would no longer be viable given the growth of both *chaebols* and, notably, labor (Kim, 1997). During this time, it was also clear that the insulation of business from ethical and, often, legal responsibilities during the early stages of
Korea’s economic development contributed to deep-rooted problems in corporate governance and the chaebol structure. These included closed concentration of ownership within the founding family, characterized by extreme separation of ownership (cash-flow) rights from control rights and conflicts of interest between controlling and non-controlling shareholders (Bebchuk et al., 1999; Kim, 2004), and a highly-diversified business structure marked by overinvestment accompanying the belief that they were too big to fail. Along with a string of corporate mishaps with the local environment and demands for responsible labor practices amid greater democratization, this period saw a growing awareness of corporate responsibilities aside from economic ones. Thus, while the core responsibility of the firm during the earlier period of rapid economic growth was economic, the concept of CSR expanded to include labor issues and a focus on environmental responsibilities.

2. Post-Asian financial crisis period - CSR of shareholder capitalism?

The financial crisis revealed the weaknesses of Korea’s business system and the failures of corporate governance. Many Western observers blamed the so called “crony capitalism” as the main cause of the financial crisis. The country was thus under heavy pressure to move to shareholder capitalism, where the rise of the liberal market economy suggested that shareholder value would largely replace public value. State regulation following the crisis was aimed at improving the national business system by increasing chaebols’ competitiveness through business restructuring as well as increasing transparency and corporate governance. Firms began to respond by formulating codes of ethics, building ethical practice systems to prevent corruption within the firm, and initiating social contribution practices such as donations and voluntary activities. Thus, businesses used ethical management and social contributions as tools to address issues of ethical business and sustainability.

However, corporate governance reforms have had mixed success. Chaebols have turned into a more transparent holding company-type structure. But they are still controlled by a single owner or family through a complex system of interlocking ownership, through which the founding family could control a large number of subsidiaries with only minor participation in a few companies, leading to extreme separation of ownership rights from control rights. Furthermore, legal compliance and business ethics remain considerable problems. Unfair and illicit business practices such as violation of fair trade legislation, embezzlement, tax evasion, illegal wealth and management transfer have taken root, with Korean corporations often adopting CSR in order to restore their damaged reliability and reputation.
In addition, the drive for short-term profit maximization of large companies (largely consistent with liberal market capitalism) has in effect squeezed out small suppliers and subcontractors. There are concerns that large conglomerates have gone too far in diversifying their business and that their greed may drive more small businesses out of operation. In 2010, the nation’s top 10 conglomerates accounted for 41 percent of the total sales of the entire manufacturing sector. The growing concentration of economic power has gone hand-in-hand with the social and economic polarization between large and smaller firms and between the rich and the poor in Korea.

Thus while the scope of CSR has continued to broaden since Korea’s early economic development, rapid shifts in business structure, corporate governance, and potentially-conflicting expectations of firms, the State, and the general public beg a more critical evaluation of what the objectives and feasible mechanisms for socially responsible corporate behavior are and/or should be.

**Characteristics of CSR in Korea**

**An active role played by the government**

Since the Asian financial crisis, the government has played an important role in encouraging CSR activities of large corporations in Korea. The central government has put in place a series of laws and regulations aimed at creating greater transparency and stronger corporate governance. For example, in 2002, the government established the Anti-Corruption Committee (later known as the Korea Independent Commission Against Corruption) with the goal of promoting greater corporate integrity. The Ministry of Commerce, Industry and Energy (currently the Ministry of Knowledge Economy) has made continued efforts to promote ethical practices of public and private corporations since 2003. The Ministry established the Business Institute for Sustainable Development under the Korea Chamber of Commerce, with the mission of establishing sustainability management through corporate partnerships with various interested parties. Together with the Korea Chamber of Commerce and Industry and the Institute for Industrial Policy Studies, the Ministry also developed Korean Sustainability Report Indicators in October 2006 and has since held an awards ceremony to honor sustainability management and best practices in Korea.

The active role played by the government in Korea is also shared by other East Asian countries such as Japan and China, countries which also place a strong emphasis on the role of government in encouraging and monitoring CSR activities of the firm (East Asia Institute, 2009; Hankyoreh Economic Research Institute, 2010). Public opinion surveys show that the three countries tend to have some of the highest
percentages of public support for stronger CSR (Hankyoreh Economic Research Institute, 2008).

Nonetheless, the extent to which the government can play a role in promoting genuine CSR activities of large corporations remains to be seen. In 2010, the government established the Committee on Shared Growth to promote the principle of shared or win-win growth between large firms and small- and medium-sized firms. This was in response to growing public mistrust and criticism toward the polarizing income structure and, in particular, the growing gap between large and smaller firms in Korea. The Committee has made efforts to designate a range of sectors and activities that are reserved exclusively for small- and medium-sized firms, and has encouraged large firms to address concerns of sub-contracting firms and partner companies. The activities of the Committee have, however, encountered resistance by large conglomerates and it is believed that this reaction has led to the resignation of the first head of the Committee.

**CORPORATE PHILANTHROPY AS A MAIN FORM OF CSR**

The CSR practices of large firms tend to be dominated by philanthropic activities, or so-called “corporate community relations” in Korea. In addition to charity projects, CSR programs of large firms also consist of volunteering activities of CEOs and employees. In 2009, 220 large firms made corporate donations totaling 2.6 trillion won, equivalent to 0.2% of total sales or 4.8% of profits (FKI, 2010). The social contribution expenditure of large firms has often been channeled through corporate foundations set up by large conglomerates. One peculiar aspect of corporate philanthropy in Korea is that a large amount of corporate donations has often been made after conviction of the owners of large conglomerates of embezzlement, tax evasion, or other illicit business practices. This has led Korean firms to focus on corporate donations with the purpose of drawing away public attention from illicit activities. This type of CSR activities is thus used as an impression management tool to restore the damaged reliability and reputation of large companies as corporate donations are believed to project a positive image of the companies among the general public (Choi & Aguilera, 2009). Due to these practices, however, CSR activities have often been viewed as lip service or window dressing among the general public in Korea.

For Korean firms, CSR largely remains as “extra-business” activities and is not being internalized in firms’ core business. A growing number of large firms have created CSR teams or divisions, with a survey showing that about 70% of large corporations had a separate CSR team or division in 2009 (FKI, 2009). However, they generally operate as peripheral business divisions and are largely separated from the core departments of the corporation. This may reflect the fact that Korean
firms have not internalized long-term CSR into their corporate philosophy or core strategy. Unlike many global corporations in advanced economies, Korean corporations have not embraced strategic CSR, not to mention the creating shared value (CSV) approach as advocated by Porter and Kramer (2011).

**Public perception of CSR**

A recent survey shows that the most important thing a company can do to be seen as socially responsible in Korea is to “give back to community or country” (37%), followed by “employ people, create jobs, support economy” (31%) (see Figure 1). In this sense, corporations are expected to fulfill economic responsibilities of creating employment and supporting the economy while also serving the community or country. This indicates that public perception of CSR in Korea maintains a strong linkage to the public value view of a corporation of the pre-crisis period. While there has been a greater marketization of institutional arrangement and a prominence of shareholder value in Korea, the public still expects large firms to make contributions to the community or country to remain socially responsible.

![Figure 1: Public expectations of CSR in Korea](../Images/Figure1.png)

**Figure 1: Public expectations of CSR in Korea**

*Most Important Thing a Company Can Do to be Seen as Socially Responsible in Korea in 2010*

Source: GlobeScan Rader 2011.

Note: Unprompted, top mentions

In addition, large corporations in Korea face mounting criticism for not addressing concerns of stakeholders. In the context of deepening social and economic polarization between the rich and the poor and between large and smaller firms, large corporations have been blamed for not taking up CSR seriously, given their privileged position in the...
Korean economy. In particular, the relentless drive for short-term profit maximization of large firms has resulted in widespread practices of squeezing out smaller suppliers and subcontractors. Large corporations have also continued to diversify their businesses, moving into areas that had traditionally been reserved for smaller firms. As such, concerns have been growing that large corporations’ greed may drive more small businesses out of operation. The public value view of socially responsible corporations is likely to have contributed to growing antipathy and mistrust toward large corporations.

**Growing importance of CSR in the global market**

With the globalization of Korean firms’ operations, the importance of CSR activities in the global supply chain has received growing attention. Korea’s outward FDI increased from 1 billion USD in 1990 to 23 billion USD in 2008, with the largest increase occurring since the mid 2000s. The importance of CSR in the global supply chain applies not only to large firms, but also to smaller firms operating as a supplier to multinational corporations. The subsidiaries of Korean firms operating overseas have faced growing allegations of practices such as anti-union behavior and poor treatment of workers in developing countries. This has led to an urgent need to address irresponsible behavior abroad and a commitment to upholding global standards of social responsibility.

In response, the government and corporations have taken several initiatives. The UN Global Compact Network Korea was launched in 2007 and the membership reached 204 by the end of 2011. In 2010, Korea International Cooperation Agency (KOICA) launched a “global CSR” PPP (public-private partnership) program to support CSR activities of Korean firms in developing countries. In addition, the Ministry of Foreign Affairs and Trade launched a program aimed at raising the awareness of global CSR among Korean firms operating overseas in 2011.

**Conclusion**

The examination of CSR in Korea suggests a shift in the system of corporate governance and CSR since the 1997 financial crisis in Korea. The previous economic system was criticized as “crony capitalism” and the ensuing reform and restructuring of large conglomerates has led to a shift to a stockholder capitalism-like system of corporate governance. Since the financial crisis, CSR has evolved as a concept that embodies a broader scope of responsibilities, including environment, labor, human rights, anti-corruption, and corporate philanthropy, which requires corporations to bear social responsibility more reflective of their position in society. This push for corporations to behave in a more socially responsible manner.
desirable way has prompted the State to take up an active role aimed at creating greater transparency and stronger corporate governance.

However, while legislation and rhetoric suggest that post-crisis Korea has been moving towards a stockholder capitalism-like system in theory, practice seems to highlight tension between the idea of stockholder capitalism and expectations from the greater public that corporations adhere to a pre-crisis public value view that firms should give back to the community or country. In addition, firms continue to face sharp criticism for disregarding stakeholder rights. In the context of income polarization and divergent performance between large and smaller companies, both the public and private the State has started to demand greater social responsibility on the part of large Korean firms. Thus the current CSR landscape in Korea is characterized by a mixture of developmental CSR of the past and competitive CSR of emerging stockholder capitalism. As such, this paper suggests that there is a need for future research and subsequent policy recommendations that address a vision of CSR in Korea and feasible mechanisms for achieving these goals.

References


