

South Korea: From growth miracle to sustainable success story

South Korean companies have emerged among the leaders of global corporate sustainability and we expect this trend to continue going forward. To maintain this momentum, South Korean companies will need to continue to leverage their expertise to remain innovative and competitive while managing the expectations of local and global stakeholders.

A growth strategy focused on innovative, high quality exports

South Korea's economic growth, popularly known as the "miracle of the Han River," has elevated the country to the world's twelfth largest economy in terms of GDP (about USD 1.1 trillion), amounting to roughly USD 30,000 per capita. It has gone from being one of the poorest nations in the world during the 1960s, relying on aid from the OECD Development Assistance Committee, to reaching a level of economic success leading it to become a member of that same donor committee. With this feat, South Korea has become the only OECD member to transition from recipient country to donor country. South Korea's success can be partially attributed to its growth strategy, which is based on a form of state-guided capitalism that focuses on export-led manufacturing and has served as a role model for other rapidly developing economies.¹

Bolstered by its manufacturing-based economy, South Korea is the global leader in shipbuilding and the production of LCD screens, mobile handsets and memory chips. Competition in these industries is fierce, with neighboring Japan, China and Taiwan serving as particularly aggressive rivals. Though South Korea cannot compete with China and Taiwan in terms of low-cost production, it has retained its competitive advantage by shifting its strategy toward becoming a producer of high-quality and innovative goods.²

Growing pains

South Korea's impressive growth has not come without a price. New data on various socio-economic indicators are hinting at signs of social distress. Although GDP has tripled in the last 20 years, real

wages have only risen by approximately 50% during the same time period. Increasingly, the middle class faces cash-flow constraints and households spend more than they earn. As a result, South Korea's household saving rate has drastically dropped from the highest to the lowest of the OECD countries. Demographic indicators are beginning to point toward similar social trends; the country has the highest suicide rate among OECD countries, with the number of suicides doubling in the past decade. Over the last 20 years, divorce rates have doubled and the fertility rate has drastically dropped to the fourth-lowest among developed economies. One could argue that South Koreans have become victims of their own success, and that such indicators reflect the social impact of accelerated growth.

Still, South Korea continues to push ahead toward continued prosperity and sustainable growth. The strong performance of South Korean companies in the RobecoSAM Corporate Sustainability Assessment (CSA) is evidence of their emergence as global sustainable business leaders in recent years, showing that the potential for positive transformation exists.

A global leader in innovation

South Korea's sustainability performance in the CSA is comparable to that of other developed markets with longer histories of corporate sustainability. Furthermore, South Korean companies are listed among the world's highest-performing companies in terms of corporate sustainability. At the criterion level, the 2012 CSA results indicate that the country has been performing strongly in key future growth drivers such as Innovation Management and R&D spending (Figure 1).

¹ McKinsey; Dobbs, R.; Vilinger R.; Beyond Manufacturing

² McKinsey 5 essays: http://www.mckinsey.com/insights/winning_in_emerging_markets/south_korea_finding_its_place_on_the_world_stage

This observation supports the overall long-term growth strategy that South Korea has set for itself and is a good indication that South Korean companies are investing time and thought into developing the sustainability strategies that provide their stakeholders and shareholders with long-term value. Though South Korean companies have made significant investments in technical and manufacturing capabilities in recent years, they must now make similar investments to preserve and develop their human capital, a key component of their competitive advantage. The nascent social challenges faced by South Korean society demand that companies invest and innovate to ensure a work-life balance for their employees that minimizes stress and enables long-term personal development.

RobecoSAM has been monitoring the positive development of corporate sustainability and Sustainability Investing in South Korea for a number of years. A combination of factors developing concurrently has resulted in an economy that prioritizes sustainable development. Regulatory pressure, shifting investor priorities and the transformation of South Korean companies into leading global businesses have sparked a lasting interest in sustainability. This focus has quickly moved beyond traditional environmental issues and manufacturing to encompass corporate governance and social factors.

Local stakeholders gain importance

In parallel, RobecoSAM's data also shows that other stakeholders such as consumers and the media are increasingly holding corporations accountable for their actions. As sustainability moves from the private to the public arena in South Korea, stakeholder groups are becoming increasingly vocal and skeptical about the global perception of South Korean companies and their sustainability achieve-

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ments. It is, however, important to keep in mind that global companies – even sustainability leaders – continue to face sustainability challenges including local stakeholder scrutiny and. South Korea is no exception. Growing local pressure on companies to do business responsibly and address emerging social concerns has led to a commitment to greater transparency and effective communication to the public. Through the CSA, RobecoSAM has seen scores in the social and environmental reporting sections improve considerably, demonstrating South Korea's leading standards in innovative and material reporting methods (Figure 2). Despite a possible disconnect between corporate policies and actual corporate behavior, it appears that industry standards in South Korea are moving in the right direction. It is clear that local stakeholders are becoming increasingly critical of companies that do not meet the standards they have set for themselves.

A favorable environment offers a bright future

South Korean companies have emerged among the leaders of global corporate sustainability and we expect this trend to continue going forward. Future challenges for South Korean companies will involve effectively managing the expectations of both local and global stake-

Figure 1: Innovation leader South Korea: average CSA scores for Innovation Management and R&D spending

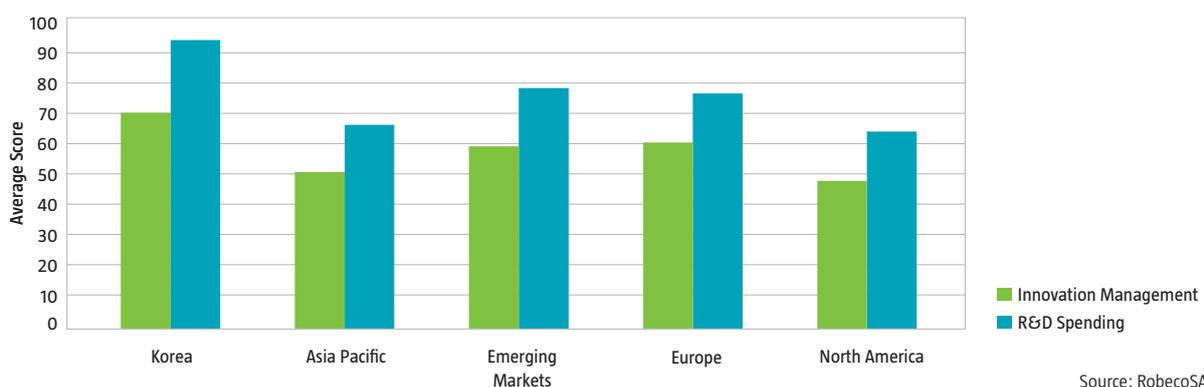
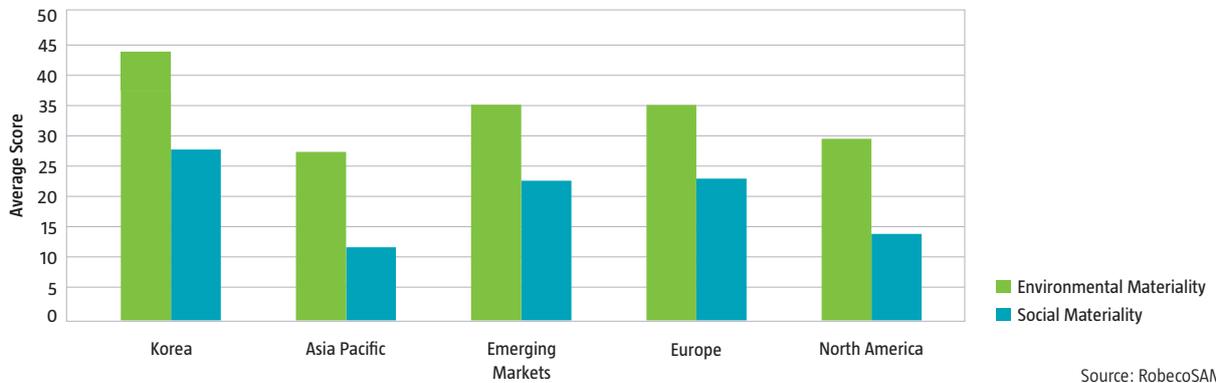


Figure 2: Exemplary Reporting: Average CSA score for environmental and social materiality reporting



holders and leveraging their experience and expertise to remain innovative and competitive. With a stable business environment and legislative support, more companies can move from being sustainability followers to sustainability leaders and innovators. In the meantime, a growing market for sustainability-related services and increasing interest from investors are likely to drive South Korean companies' long-term commitment to sustainability.

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Kathelijne Marritt-Alers
Senior Relationship Manager
Sustainability Indices



Guido Giese, PhD
Head of Indices