

EAI COLUMN

February 4, 2016
ISBN 979-11-86226-76-6
95340

Translation
Gordon Gatlin - EAI Intern

Acknowledgement
This column is was originally published in Korean by *Hankyung Economic Magazine* on January 20, 2016 and can be found [here](#).

EAI Column presents fresh, constructive opinions and policy suggestions on Korean society and politics as well as East Asian security and international relations issues from recognized experts.

Please acknowledge the source of this article if used as a citation.

The EAI is a nonprofit and independent research organization in Korea. The contents of this article do not necessarily reflect the views of EAI.

The East Asia Institute
#909 Sampoong B/D
158 Eulji-ro, Jung-gu
Seoul 04548
Republic of Korea

© EAI 2016

www.eai.or.kr

Trust in Big Business Can Go in Tandem with Trust in Government

Sook Jong Lee

EAI President / Sungkyunkwan University

Recently the Federation of Korean Industries published the 2015 issue of the “Social Contributions White Paper” which is an annual report that targets the top 500 companies by sales and workers at those companies. According to this report, in 2014 large corporation social contributions made by the 231 companies responding to a survey reached a scale of 2.6708 trillion won.

This is a significant fall from the 2012 peak of 3.2534 trillion won due to slumps in business performance or the completion of large scale construction projects. However, if we consider that the level of contributions as a percentage of pre-tax profits as remained roughly the same at 3.5 percent in recent years, we can see that social contributions are important to large corporations despite economic difficulties.

On the one hand, contributions by 66 corporate foundations were 4.5 percent higher than the previous year, amounting to 3.3378 trillion won. Their support focused mainly on helping society’s most vulnerable in the three main areas of education and scholarships, culture and the arts, and physical education. But while corporate foundations participated a great deal in these educational and scholarship support programs, the greater need for investment in high-priced medical equipment and facilities among corporate hospital foundations took up 90 percent of the total corporate foundation social contributions.

The first educational and medical foundations created by major corporations

for the purpose of contributing to society began in earnest after the 1960’s. However, it was not until the beginning of the new millennium that foundations took on the mantra of Corporate Social Responsibility (CSR) that went beyond economic and legal responsibilities to include the beginning of ethical and charitable activities.

Given that large corporations have consistently seen CSR simply as making contributions to society, *chaebols* and other businesses have begun adding policies regarding social contributions and responsible management to formal company policies and Social Contribution Committees or similar departmental task forces have been established and placed in charge of these efforts.

These changes are the result of following international trends relatively quickly. CSR was a peripheral subject in western schools of economics and business in the 1980’s, but in the 1990’s CSR gained momentum and expanded to the level of business ethics and strategy in combination with the concept of sustainability.

In the years following, international organizations and leaders contributed to the globalization of CSR. After then-Secretary General of the UN Kofi Annan’s publicly stated support, the UN created the Global Compact of ten principles including human rights, labor issues, the environment and anti-corruption. The UN encouraged the participation of businesses around the world and reviewed their progress. In November of 2010, the International Standardization

"The important issue is that corporate social contributions in the form of funds materials, volunteer work, or gifts of talent are a necessary ally in helping government and civil society find solutions to societal problems."

Organization (ISO) established the international CSR management standards guidance ISO-26000.

At first glance it appears that Korea's major corporations active embrace of these trends is natural given that the scale of their business is large by global standards and they are moving forward particularly through exports and foreign direct investment. However, these same corporations' CSR activities generally focus on the relief of societal problems and providing services domestically rather than internationally and the reason for this domestic focus should be considered.

Should Societal Contributions be Voluntary or Regulated?

Corporations' original motivation for paying attention to social contributions was their judgment that it was an appropriate response to the negative anti-corporate sentiment against a hereditary "owner management" structure. From this follows a perspective that disparages major corporations' social contribution activities as insincere image boosting publicity.

However, quibbling over whether their motivation is a public relations move or is the result of true introspection of sustainability and innovative efforts is not useful. The important issue is that corporate social contributions in the form of funds, materials, volunteer work, or gifts of talent are a necessary ally in helping government and civil society find solutions to societal problems.

According to a research report published by the East Asia Institute and the Research Institute for Social Enterprise, which is affiliated with the Korea Foundation for Advanced Studies, and based on the results of an international survey conducted in partnership with GlobeScan, as

distrust of large corporations grows, a normative view of social contributions that puts social responsibility before economic responsibility strengthens.

This brings up the thought that rather than major corporations voluntarily giving social contributions, the government must push for them through regulations or legal coercion. Contrary to this, in developed western countries, where trust in large corporations is high, there is strong support for creating shared values which emphasize that economic interests and social values can be shared. There is also a preference for pushing companies towards voluntary participation in these activities rather than government regulations. Confidence in major corporations in Korea is low and Korea is among the group of nations that support corporate normative social responsibility.

This situation begs the question of how to increase public trust in major corporations. For people who believe that social contributions are only a tool for corporate public relations CSR is useless as contributions cannot bring about trust in companies. Trust in corporations is based on a multitude of complex factors and expectations that social contributions will lead directly to social trust are misguided. As in last year's film "Veteran," illegal or unethical behavior by ownership or their family clearly forfeits the gains made to corporate images through social contributions.

Yet if specific company names are mentioned during surveys, there is a tendency to see an increase in public confidence in products and a related boost in trust. When looking at these trends, there seems a need for more in-depth research into the effects of a one-time scandal on the level of public trust in a major corporation.

Interestingly, in the aforementioned research publication, analysis of the results

"If big business can genuinely contribute to creating a better Korea by forging partnerships with both the government and civil society, then this will clearly help in raising trust in large corporations."

of the 2013 survey showed that there is a strong correlation between trust in government and major corporations by analyzing relations among government, big business, and NGOs. In other words, as confidence in government grows, so does confidence in large corporations.

A series of surveys over several years may determine if the statistical trend is the result of the pro-business conservative class's high levels of confidence in a conservative government or if regardless of ideology the levels of confidence in government and business are mutually dependent. If it is true that confidence in government and business do move in tandem, then it follows that the idea that a drive for reforming *chaebols* and fostering distrust of major corporations will increase confidence in government is mistaken.

Korea carried out its economic growth with a two-faced approach of supporting and regulating large corporations simultaneously. Since then, Korea has swung back and forth between the extremes of cozy government-*chaebol* relationships and *chaebol* reform. Meanwhile strongly left leaning NGOs have continuously regarded corporate reform as a primary goal.

Now, if big business can genuinely contribute to creating a better Korea by forging partnerships with both the government and civil society, then this will clearly help in raising trust in large corporations. Accordingly I believe that corporate social contributions should be broadened and companies should take a long-term position on investment in society. ■

— Sook Jong Lee is the EAI President, and a professor at Sungkyunkwan University. Currently, Dr. Lee holds advisory positions in the South Korean government, including the Presidential National Security Advisory Group, Presidential Committee for Unification Preparation and councils for the Ministry of Foreign Affairs, the Ministry of Unification, and the Korea International Cooperation Agency (KOICA). She also participates as member of the Trilateral Commission, Council of Councils, and many other transnational networks on research and policy studies. Dr. Lee received her B.A. from Yonsei University, and M.A. and Ph.D. in sociology from Harvard University.