



Network Korea

UN Global Compact & ESG Trend

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Introduction

The evolution of capitalism: shareholder capitalism \Rightarrow stakeholder capitalism

Milton Friedman, 1970

"The social responsibility of business is to increase its profit."

Business Round table, 2019

"The purpose of a Corporation, signed by around 200 CEOs in the US"

" All its member companies share a fundamental commitment to all their **stakeholders**-customers, employers, suppliers, communities and **shareholders**"

Introduction

“Shareholder Value Is No Longer Everything”

- Business Roundtable



- About 200 CEOs in the US, including Apple, Walmart and JP Morgan, announced the Statement of the Purpose of a Corporation
- It modernizes the principles in the roles of a corporation
- They declared stakeholder capitalism
 - The management for various stakeholders
 - The pursuit of not short-term but long-term shareholder's value
 - Growth-oriented through inclusion rather than exclusion

The expansion of the concept of a corporation's goal and performance evaluation

- ◆ Extend the time for **a profit concept** as a corporation's goal: short-term → **long-term**
 - ✓ Consider sustainability and future-oriented values

 - ◆ Expand **the target of responsibility**: shareholders → customers and **other stakeholders (people and planet)**
 - ✓ Fulfill social responsibility based on inclusiveness

 - ◆ **The performance of a corporation**: short-term performance vs. **long-term performance**
 - ✓ Financial performance (short-term) vs. **non-financial performance (long-term)**
 - Financial performance: (net) operating profit/limits: doesn't reflect knowledge, technology, brand, and other intangible values
 - Non-financial performance (long-term) : the improvement of ESG (environment, social and governance)
 - * ESG: Defensive approaches → respond to the regulations (about environment, anti-corruption,etc)
Proactive approaches → create social values (such as development of low-carbon technology)
- ⇒ The core concept: **pursue sustainable, inclusive growth (including internalization of external costs)**

UNGC, UN Global Compact



- The former UN Secretary-General Kofi Annan called for the Global Compact in the World Economic Forum on Jan 31, 1999.
- The UN Global Compact was established in the UN headquarters, NY in July 2000. (Joined by world business leaders, corporations, UN organizations, labor and civil groups)
- The backgrounds
 - ⇒ Expansion of the influence of corporations on environmental and social issues
 - ⇒ Recognition of the importance of corporations to achieve the UN's goal
 - ⇒ Necessity of the establishment of the UN agency for corporate's social responsibility
- * UN Global Compact Network Korea was founded in 2007.



United Nations Global Compact(UNGC)

- **Mission**

To create a “sustainable and inclusive “global economy that delivers lasting benefits to “people, communities” and markets. To make this happen, UNGC supports companies to:

1. Do business responsibly by aligning their strategies and operations with Ten principles on human rights, labour, environment and anti-corruption
2. Take strategic actions to advance broader societal goals, such as the Sustainable Development Goals(SDGs)



The Ten Principles of the UN Global Compact

The Ten Principles of the United Nations Global Compact, which encompass human rights, labour, environment, and anti-corruption derived from:

- ❑ **Universal Declaration of Human Rights(1948)**
- ❑ **ILO Declaration on Fundamental Principles and Rights at Work(1919~)**
- ❑ **Rio Declaration on Environment and Development(1992)**
- ❑ **United Nations Convention Against Corruption(2003)**



The Ten Principles of the UN Global Compact

『Human Rights』

- PRINCIPLE 1 Businesses should support and respect the protection of internationally proclaimed human rights and;
- PRINCIPLE 2 make sure that they are not complicit in human rights abuses.

『Labour』

- PRINCIPLE 3 Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
- PRINCIPLE 4 the elimination of all forms of forced and compulsory labour;
- PRINCIPLE 5 the effective abolition of child labour; and
- PRINCIPLE 6 the elimination of discrimination in respect of employment and occupation.



The Ten Principles of the UN Global Compact

『Environment』

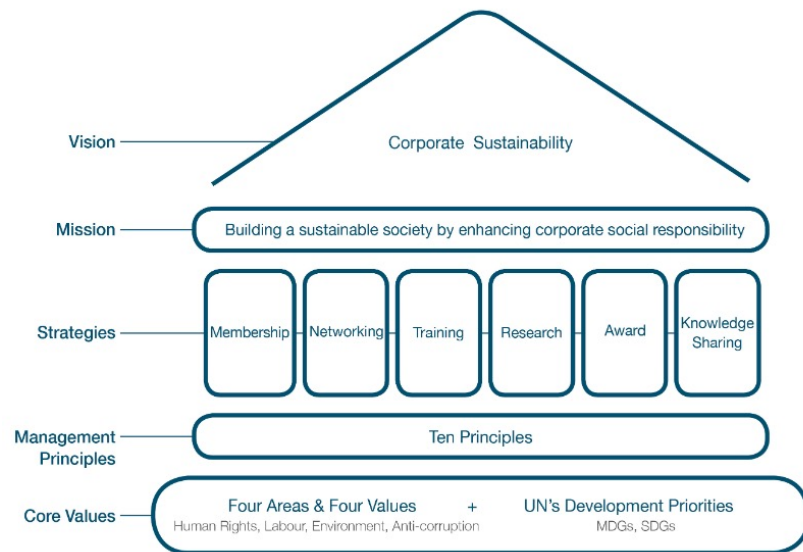
- PRINCIPLE 7 Businesses should support a precautionary approach to environmental challenges;
- PRINCIPLE 8 undertake initiatives to promote greater environmental responsibility; and
- PRINCIPLE 9 encourage the development and diffusion of environmentally friendly technologies.

『Anti-Corruption』

- PRINCIPLE 10 Businesses should work against corruption in all its forms, including extortion and bribery.

UNGC Network Korea(GCNK)

The UNGC Network Korea was founded in September 2007 to expand the participation of domestic companies in the initiative and assist progress on corporate sustainability. Since then, GCNK has been leading the dialogue on improving business sustainability on topics of human rights, labour, environment and anti-corruption through cooperation and partnership with both the private and public sectors and by providing research, principle-based frameworks, best practices, resources and organizing events related to CSR/SDGs and ESG.



UN Global Compact Participants



19,350 participants
(including **302** GCNK
participants)



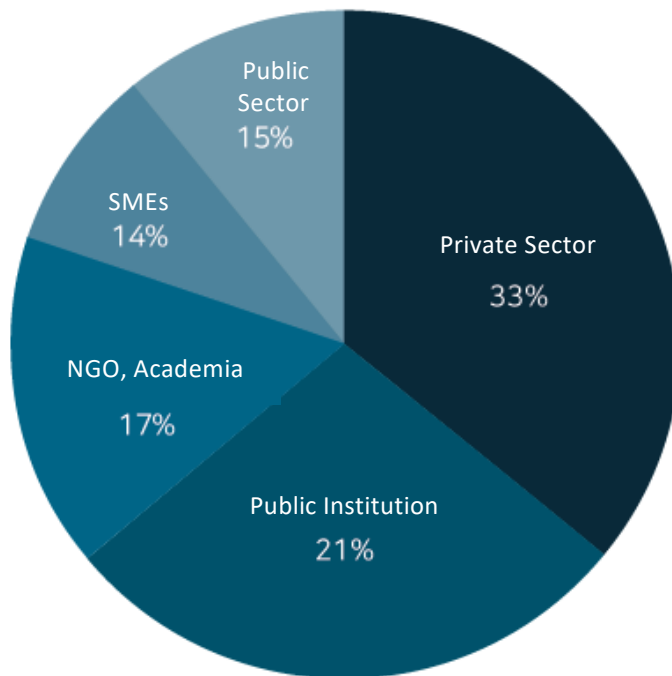
161 countries



92,867 COP/COE

302 participants

(as of Jun 2022)



**Service ·
Hospitality**
9%



**Energy ·
Chemicals**
13%



Manufacturing
24%



**Financial
Services**
13%



IT/Tech
11%



Retail
6%

The percentage of GCNK's participants per sector
(as of October 2021)

UNGC 10 PRINCIPLES + SDGs (adopted in 2015)

Pursue the 10 principles in the 4 sectors based on the existing international agreement and sustainable development goals

HUMAN RIGHTS	Universal Declaration of Human Rights (1948)
LABOUR	ILO Declaration on Fundamental Principles and Rights at Work (1989)
ENVIRONMENT	Rio Declaration on Environment and Development (1992)
ANTI-CORRUPTION	United Nations Convention against Corruption (2003)

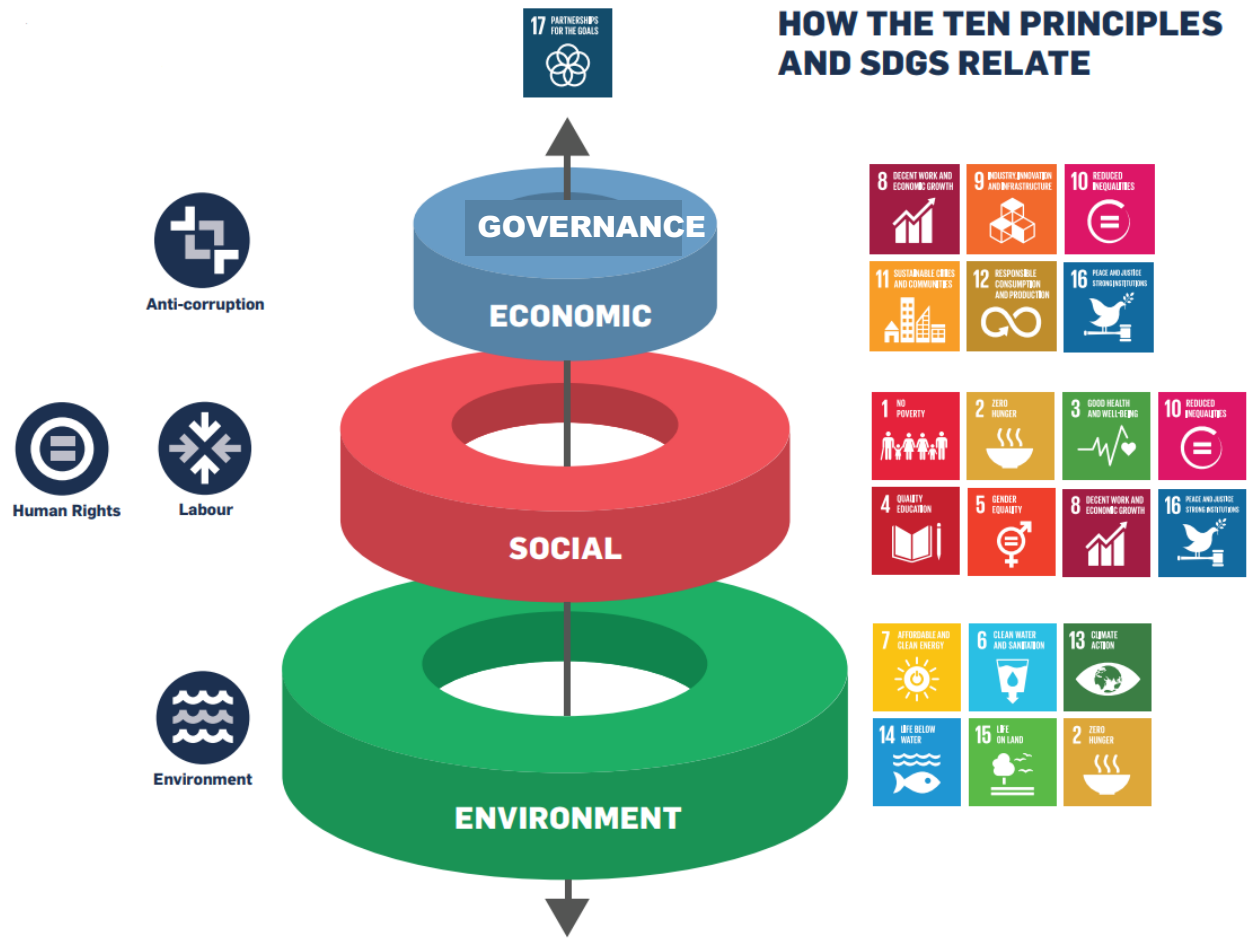


Sustainable Development Goals (SDGs)



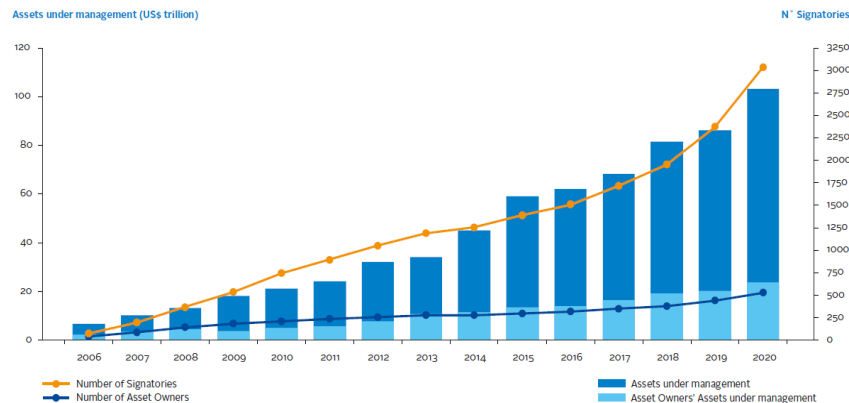
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UNGC/ESG/ SDGs



The background of ESG values

- The term, **ESG**, was first used in the 'Who Cares Wins', a report co-written by UNGC and about 20 financial institutions in **2014**.
- The idea of the former UN Secretary-General Kofi Annan that stressed **responsible investment** considering **the environment, society and governance** led to the establishment of the **UN Principles for Responsible Investment (UN PRI)** with the support of UNGC and UNEP FI (United Nations Environment Finance Initiative)
- PRI is an investment initiative to support the foundation of a sustainable investment environment. The collective AUM represented by about 4,000 PRI signatories (including the major NPF and businesses) reached more than \$103 trillion (2/3 of the world AUM).



The Six Principles for Responsible Investment

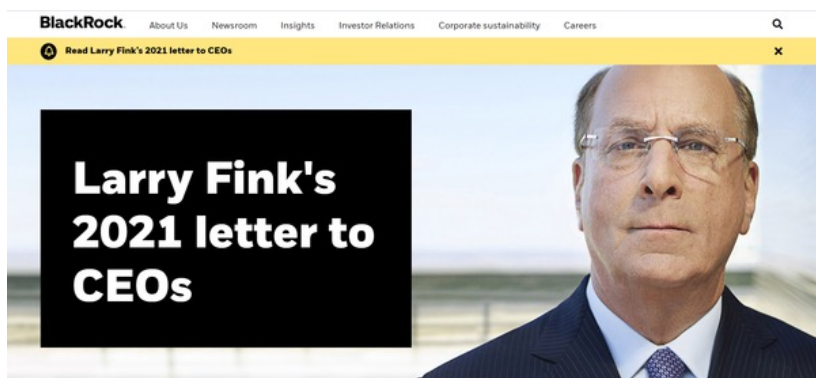
1. We will incorporate ESG issues into investment analysis and decision-making processes.
2. We will be active owners and incorporate ESG issues into our ownership policies and practices.
3. We will seek appropriate disclosure on ESG issues by the entities in which we invest.
4. We will promote acceptance and implementation of the Principles within the investment industry.
5. We will work together to enhance our effectiveness in implementing the Principles.
6. We will each report on our activities and progress towards implementing the Principles.

Changes in the investment strategies of global investment groups

BlackRock

BlackRock

- One of the world's three leading asset management firms
- AUM \9,600 trillion (as of Dec 2020)
- Where it invested in Korea: Samsung Electronics, POSCO, Naver, LG Display, NC SOFT, SK Hynix, Coway
- Announced in the annual statement saying "climate change and sustainability will be a priority of our portfolio"
- Declared to double the ESG ETF and index funds to 150 from 2019
- As of 2019, BlackRock decided not to invest in companies with more than 25% of sales engaged in sustainability issues including governance, environment, human rights, gender diversity and fossil fuel. → BlackRock challenged Korea Electric Power Corp. over plans to invest in new coal-fired power plants in Apr 2020.



"Disclosure the plan how your business models are compatible with a net zero economy, how you integrate the 2050 net zero goals with the company's long-term strategies and review the plans in a meeting of the board of directors."

"Those companies with excellent ESG performance have more benefits of sustainability and better performance than competitors."

The status of global investment related to ESG

- The world fund assets engaged in ESG increased to \$1.3 trillion from the end of 2019, by \$440 billion (\483.8 trillion) or 51% (Institute of International Finance, Nov 2020)
- The EU and the US account for 85% of investment in the global ESG, followed by Japan, Canada, Australia, and New Zealand
- As the US investment market increases 16% y-o-y, ESG-related investment will grow to \$35 trillion (Deloitte, 2020)
- Multiple supporting evidence between the ESG factors and earnings rate was published in 2020.

Those companies with the better ESG evaluation record showed higher profits in the last seven years (MSCI, PRI 2021).

- Net-zero Asset Owner Alliance (2019), Net-zero Banking Alliance and Net-zero Insurance Alliance (2021) were launched.
- Net-zero Asset Owner Alliance (the world's largest 42 investment firms joined with \$6.6 trillion) announced that they will transfer to the net-zero portfolio by 2050. (SSGA, 2021)



Excellent ESG performance = excellent financial performance?

Meta-analysis of 200 Academic Studies by Arabesque and the University of Oxford:

The result of excellent ESG performance:

50%

Lower cost of capital

88%

Better operational performance

80%

Better stock price performance

ROE

7%

Higher Return on Equity

JUST US Large Cap Diversified Index vs. Russell 1000 Tracking Total Return



Microsoft



An interview with Steve Lippman (Microsoft ESG Engagement Director)

Responsible for the engagement of Microsoft's shareholders covering the environment, society, and government issues. Closely cooperate with the IR team to integrate the ESG issues into investors' opinion and communication

▪ Top Manager's attention and cooperation between departments

- ESG Engagement Director directly reports to the CEO
- ESG and IR tasks are covered by the Corporate Secretary, under direct control of the board of directors
- Company-wide internalization of ESG issues, partnership and collaboration between departments related to ESG

▪ Smart identification of ESG issues

- Inhouse lawyers from the world branches and subsidiaries attend annual global meetings to discuss legal risks, brand, reputation, and stakeholders' interests
- Role to review and identify legal, regulation, internal issues and new problems
E.g.) identify an ESG trend not only concerns over climate change but also factors involved in society, such as the importance of HRM

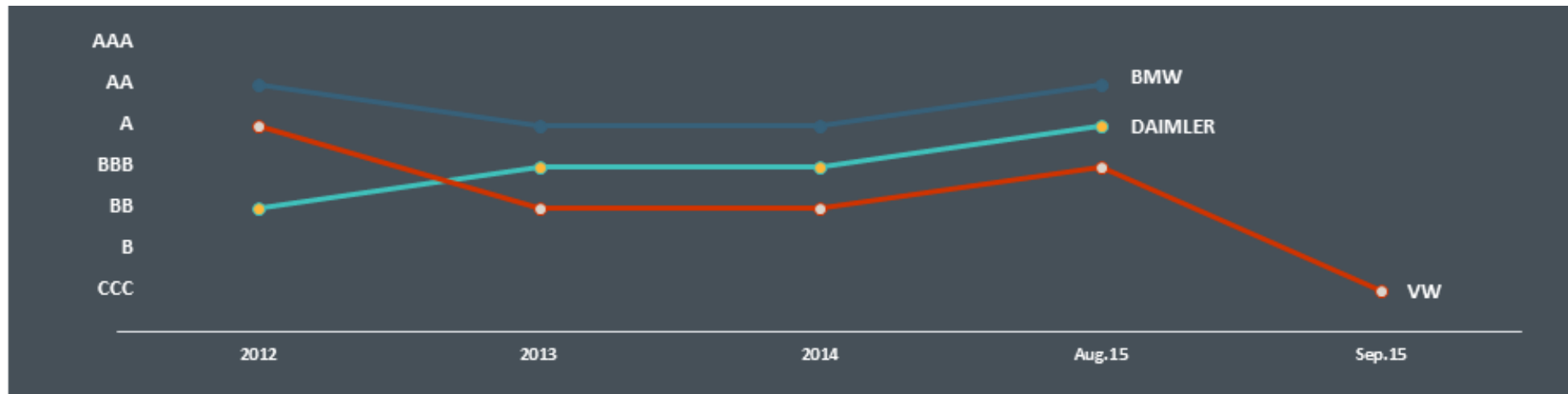
A case study on ESG risks: Volkswagen



Volkswagen

The “Diesel Gate” of Volkswagen

- The US EPA revealed that Volkswagen manipulated the vehicle emission test results.
- The stock price has nosedived by 43.1% in two weeks, evaporating a €33.3 billion market capitalization.
- “Dogmatic and closed decision-making processes and governance structures are causes of the Diesel Gate” by Herbert Diess, the former VW CEO



MSCI (2015)

VW CEO presses for faster decisions, more collaboration, Automotive News (2018)

A case study on ESG risks: Volkswagen

- **Improvement of governance**
 - Distribute the decision-making process and grant discretion to each brand
 - Expand the cooperation between departments and other companies under the lead of CEO

- **Enhancement of compliance**
 - Launch the compliance committee and HR committee
 - Provide communication channels for compliance, HR, and legal consultation to employees
 - Conduct survey on employees about compliance and business ethics and publish the results
 - Improve a program for whistle blowers by continued monitoring, add internal regulations and policies, prevent corruption and monopoly, enhance due diligence of business partners

- **EV strategy <Roadmap E>**
 - Launch 80 new EV models by 2025, declare to become a leader of E-mobility through the continued investment in the R&D for the clean and efficient combustion engine
 - The stock price has risen by 38% after the publication of Roadmap E



Volkswagen Completes Compliance Monitoring After Emissions Scandal, Wall Street Journal (2020)

What went so right with Volkswagen's restructuring?, Financial Times (2018)

A proposal to ESG management * Despite the criticism of ESG, ESG management will continue due to a green trend and natural disasters

- Requirement of ESG understanding of BOD and management (expertise enhancement, **direct report of ESG manager to CEO**)
- Requirement of company-wide understanding and strategy for internalization of ESG management (cooperation among departments for **ESG integrated strategy and management**)
- Integrated ESG-related risk management, **creation of ESG-oriented corporate culture**
- Communication and sharing of ESG issues with stakeholders through various communication channels
- Identification and strategic response to the regulation of ESG public announcement, demand of investors and rating agencies
(Provision of appropriate and consistent information, **establishment of standard reporting system**)
- Securement and provision of trustworthy ESG data through AI, blockchain technology
- Lead of agenda by participating in the ESG-related global consultative group (**integration of ESG-financial performance**)
- Proactive solutions for challenges including **RE100 reporting, Scope 3 emissions, and cap-and-trade**

Implications and applications of the UNGC 10 Principles to the Public Sector

- Cultivating one's capacity building focused on expertise with π type knowlegements
- Strengthen communication & relationship with peers, boss and other stakeholders
- Creating the organizational culture about ESG management and SDGs with particular emphasis on the areas of human rights, labor, environment and anti-corruption

=>Promoting the Accountability, Ethics and Transparency
of the Public Sector

with balanced & innovative mindset

for multi-stakeholders

through hybrid and integrated approach

(top-down & bottom up, short & long term, PPP, etc)

in a sustainable and inclusive way.

Leaders are Readers !!!