

## Corporate Social Responsibility Disclosure among Large Korean Companies

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### ABSTRACT

*There are various definitions and schools of thoughts regarding Corporate Social Responsibility (CSR). With regards to CSR, cases for diverse stakeholders, not limited to primary traditional stakeholders such as shareholders or employees, should be made. Much progress has been made in response to CSR in Korea in the last decade after the Asian Financial Crisis. Also, the CSR practices in Korea somewhat resonate with those of Americans or Japanese due to Korea's history. In this article, website disclosure about CSR and reference to various stakeholders alluded to in GRI index at UN has been analyzed – in other words, content analysis of disclosure on the websites of large Korean companies have been made. Also, simple empirical analysis has been carried out with regards to the firm's performance and CSR degree and although the influence proved to be insignificant.*

**Keywords:** *Corporate Social Responsibility, Stakeholder management, Corporate Social Responsibility Disclosure, website content analysis*

### 1. INTRODUCTION

During the Asian financial crisis, Korea has experienced substantial changes in its environment of corporate governance and corporate social responsibility. Before the Asian financial crisis, Korea's corporate governance institution or the awareness of corporate governance among the business leaders and citizens were been very weak by both of the shareholder protection and other stakeholder protection standards.

After the Asian financial crisis, Korea has experienced much change in its corporate governance atmosphere towards the shareholder oriented model, following the Washington consensus. The principle actors inducing such changes were the Korean government (using the economic crisis and the sense of urgency in the interested parties to launch the much longed for corporate governance reform), international agencies such as IMF (who was very influential in directing the government's reform as a principal creditor of the rescue loan), and NGOs (such as the federation of Korean industries) and other civil organization (People's Solidarity for Participative Democracy) that perceived reform of the corporate governance as a part of democratization and as away to create equitable economic system. A society wide consensus for the shareholder oriented model of corporate governance was also reached due to the influential media coverage and other important actors rallying around the theme.

However, after the collapse of Enron and World com in 2007 and the U.S. originated financial crisis, the support for the Anglo-Saxon economic model, including the shareholder centered model of corporate governance, has become debilitated. Even before the financial crisis, there existed the contention that shareholder supremacy model need not be the only model for the world economies that have such diverse institutions and therefore, need not be a panacea for all the economic problems in the world. The voice supporting this argument is also increasing in Korea. The main contender to the shareholder model of corporate governance is a stakeholder model that can be observed in the continental Europe or Japan. The stakeholder model considers important balancing and incorporating the interests of different stakeholder not only of shareholders, but also including employees, consumers, general public and creditors.

As the society matures economically and socially, the expectation on the corporate actors by the citizens may increase beyond that of pursuit of pure financial gains and returns to the shareholders. They might require the corporations to serve other stakeholders as well. Even before development of the society on a high economic and social level, depending on social and historical environment, there may be a demand or tradition of business philanthropy or social contribution. The main ideological support behind the socially responsible corporate business would be the stakeholder oriented model of corporate governance- catering to the interests and welfare of different stakeholders.

This paper sets out to first, examine the ideological controversies surrounding the support or attack on the corporate social responsibility. It will also review the conjunction of stakeholder model and corporate social responsibility. Also, it will examine the current state of social corporate responsibility in Korea, in comparison with U.S. and Japan. Lastly, it will conduct an empirical test by searching the corporate social responsibility related websites of the 104 largest companies in Korea, including their mentioning of each stakeholder, disclosure of sustainability report on their website and the existence of the department/ charity organization exclusively dealing with corporate social responsibility, or organized volunteer groups in these companies. The data has been analyzed to aid the understanding of the current state of Korean corporate social responsibility. It also includes the analysis of relationship between the financial performance of the large Korean companies and the degree of their CSR dedication.

## 2. THE DEFINITION OF CSR

As CSR activities are comparably recent phenomena, it will be important to lay out the definition of CSR to build a foundation of further dialogue.

There are a few definitions of social corporate responsibility. (Jones1999)

1. Davis (1972): Business activity should not only seek the traditional economic gains but also accomplish social benefits
2. Carroll(1979):The social responsibility of corporation includes the economic, legal, ethical and discretionary expectations that a society has of business at a given point in time.
3. Frederick (1986):The fundamental idea of ‘ corporate social responsibility ‘ is that a business organization have an obligation to contribute to social betterment.
4. Wood (1991) : the basic idea of corporate social responsibility is that business and society are interrelated rather than remaining separate entities. Thus, society has certain expectations on appropriate business behavior and consequences.

## 3 PREVIOUS RESEARCHES (LEE 2007)

The research streams in this area can be divided into three categories by their subject of studies. First stream of research attempted to develop various conceptual models to study the relationship between business and society (Carroll, 1979; Freeman, 1984; 1984; McMahon, 1986) and the relationship between CSR and financial performance (Orlitzky, 2001; Murphy, 2002; Simpson and Kohers, 2002). A second line of studies focused on the attitudes and perception of corporate upper managers with respect to corporate social responsiveness (Sturdivant and Ginter, 1977; Ibrahim et al., 2003; Ibrahim and Parsa, 2005), their individual decision making process, and the influence of ethics codes on these decisions. A third category of research analyzed strategies that can maintain corporate social responsiveness and performance (Carroll, 1979; Wartick and Cochran, 1985; Wood 1991; Beliveau et al, 1994; Stanwick and Stanwick , 1998), stakeholder and issue management (Freeman, 1984; Clark, 2000; Valand and Heide, 2005)

The changes in research focus can be also divided along time line (Dobers 2009) Majority of the research during the 1990s, at the inception of CSR research, geared towards ways to persuade managers to take on responsibility beyond economic profit, and concentrated on voluntary method or legal inducement to do so. (Perrings, 1991, Glachant, 1994, Dobers, 1996; 1997) Current research concentrates on what kind of management and business methods enhance the integration of social environmental concerns (Schaefer, 2004) or CSR into everyday business activities and managerial systems. (Robinson and Clegg 1998)

## 4. THE CASE FOR AND AGAINST CSR (JONES 1999)

There are different stances in the literature that proceed with arguments either for or against CSR. It will be worthwhile to examine the theoretical underpinning supporting these contrasting arguments.

### 4-1 The case against CSR (Jones 1999)

The first theoretical stand against CSR can be derived from institutional perspective which perceives that, based on Parsonian pluralism (Parsons, 1951), other institutions such as government, churches, labor unions and civic organizations are there to perform the types of functions required by social responsibility of business organizations. According to this view, the managers from large corporations do not have resources such as time and skills to implement public policy. In other words, they should not be required to employ public policy in that, unlike democratically elected politicians, they are not be accountable for their actions. Encouraging management to expand its role to meet the purpose of social responsibility is dangerous because it allocates to the upper management large amount of authority without accountability.

The second school of argument against CSR is categorized under the logic of classical capitalism, which continues to be influential because of its simplicity and resonance with the views of the mainstream of business establishment (particularly the financial sector). This view states that management has no right to do anything else than to behave in ways to improve shareholder value, which is, from what they contend, the sole objective of corporations. This was the case of court ruling in the U.S. in the 1960s. According to the court ruling, to request other objective is to violate management's legal, moral and fiduciary responsibilities. The rational for the wave of leveraged buyouts in the corporate sector during the 1980s built the supremacy of shareholder rights over those of other stakeholders, and management's corresponding obligation to maximize economic performance only for the shareholder (DuBoff, 1989)

#### 4-2 The Case for CSR

Below are the four main arguments (theories) contending for CSR activities.  
(Garriga, Mele 2004)

The first view can be placed under the instrumental arguments camp. This stance considers solely economic aspects of the interaction between business and society. This view is based on rational calculation that socially responsible behavior will be helpful for the creation of wealth for the corporation, at least over the long term (Jones 1995). In other word, this argument sticks to the view that corporation is only an instrument to benefit the firm's profit and that is its sole responsibility. This view is called instrumental because it considers CSR only as a means to achieve financial gain.

Being socially responsible means that firms may be forward in anticipating and deterring government regulations, benefit from opportunities arising from increasing levels of environmental and cultural (sexual) awareness, and differentiate their products from their socially less sensitive competitors. Social responsibilities are all viewed as strategies to achieve competitive advantage. They accordingly allocate human, organizational, and physical resources (resource based view: Barney, 1991, Wernerfelt, 1984), to make social investment which improves the competitive advantage and dynamic capabilities (Teece et al., 1997) of the firm.

The second school of thought contending for CSR is Ethical approach. The ethical arguments are based on religious principles, prevailing social norms and philosophical frameworks. (Goodpastor 1984) They argue that the relationship between the business sector and society as a whole is imbued with the ethos of ethical values and that firms should behave in socially responsible manners because it is the morally right thing to do. This view contends that the firm sought to behave in socially responsible ways even when such resource expenditure may hurt the organization's financial performance. In short, these thoughts view that firms should accept social responsibilities as ethical obligations above any other consideration including the economic one.

(Garriga Mele 2004) The concept of universal human rights, various codes of conducts based on the Universal Declaration of Human Rights declared by the United Nations in 1948 (UN Global Compact, The Global Sullivan Principles, etc), as well as sustainable development (Burtland Report: "seeks to meet the needs of the present without compromising the ability to meet the future generation to meet their own needs", World Commission on Environment and Development, 1987), or a "process of achieving human development in an inclusive, equitable, connected, secure and prudent manner" (Gladwin 1995) have been adopted with respect to this view.

The common good approach is another concept included in this category of views. This view claims that business sector, because it is a part of a society as like any other social groups or individuals in the society, has to contribute to the wellbeing of the society. Business ought to be purely a positive contributor to the common good of the society with respect to being in a harmonic way of living together in just and peaceful conditions, both in the present and future. Normative stakeholder theory to be mentioned in the latter part of article also belongs to this category.

The third group of theories is political theories: This view focuses on the social power of corporation in its relationship with society and thus, considers that the corporation is responsible in the political arena due to its association with this social power. These theories emphasizes that the corporation accept social duties or participate in social cooperation. They lead the business to interact and connect with the society and accept the power and position of business and its inherent responsibility. Among these views are Corporate Constitutionalism and Corporate Citizenship. (Garriga and Mele 2002)

Corporate Constitutionalism emphasizes that the firms have the power to influence the market equilibrium, unlike the classical economic theory's assumption. This power is guided by two principles, social power

equation and the iron law of responsibility. The first states that “social responsibility of businessman arise from the amount of power they have” (Davis, 1967). The second states when the firm fails to exercise its power ‘in a manner the society considers responsible, it will lose its power because other groups will step in to assume those responsibilities.’

Corporate Citizenship begins with the recognition that some of the large multinational companies have greater social and economic power than some governments. The corporate citizenship is specified with strong sense of business responsibility towards the local community and partners. These multinational companies behave in ways to improve the welfare of local community, and the environment. The views on corporate citizenship range from the narrow view of corporate philanthropy and social investment to the protection of the citizenship at the point of government failure. (Garriga and Mele2004 )

Last categories of theories may be grouped into integrative theories: This view includes theories that formalize how business sector integrate social demands, considering that business depends on society for its continuity and growth and even for the very existence of business itself. (Garriga and Mele2004) Social demands of different interested groups in the society are generally considered to interact with the business sector in ways that give the business sector a certain legitimacy and prestige. Thus, corporate managers should detect and integrate social demands in such a way that enables the business to operate in accordance with social values.

This view emphasizes the principle of public responsibility, highlighting the importance of public process rather than a few selected interest groups narrowly defining the scope of responsibilities of business organizations. The content of public policy includes broad social discussion of interests reflected in public opinion and practices. (Preston and Post 1981). However, discovering the core of the principle of public responsibility is a complicated process that requires substantial managerial attention.

The corporate social performance includes a search of social legitimacy. Carroll (1979), who is generally considered to have introduced this model, thought that a definition of social responsibility(which alludes to the full range of obligations business has to society) must encompass the economic, legal, ethical, and discretionary dimensions of business performance. Development to this model has been made by Wood (1991). Wood, by embodying (in the analytic forms) principles of CSR, expressed that CSR activities should bear on institutional, organizational and individual levels. Wood also considered the processes of corporate social responsiveness, such as environmental assessment, stakeholder management and issue management, and outcomes of corporate behavior including social impacts and social policies. (Garriage and Mele, 2004)

Stakeholder management, oriented towards stakeholders who influence or are influenced by corporate policies and practices, and which is central to the theme of this paper, is included in this view. The central principle of stakeholder management is to achieve maximum overall cooperation between the wide spectrum of stakeholder groups and the objectives of corporations, by simultaneously dealing with the issues affecting multiple stakeholders. Stakeholder management tries to incorporate the interests of diverse groups with different stakes in the firm into managerial decision making. The corporations nowadays need to seek corporate responses to social demand by establishing dialogue with a full range of stakeholders. (Garriage, Mele .2004)

The author, in this paper, takes a special consideration of the stakeholder theory in investigating the corporate social responsibility (CSR), particularly in the Korean setting.

## **5. CSR AND STAKEHOLDER MANAGEMENT**

### **5.1. Stakeholder theory and CSR**

Most companies nowadays understand the importance of managing relations with key stakeholders such as shareholders, customers, employees, the local community, government, the media and the general public. (Lee 2007)

Stakeholder management (Freeman, 1984) involves distributing organizational resources in such a way as to consider the impact of such distribution on various groups within and outside the firm. In the work of Post et al. (2002), the term ‘stakeholder management’ means the development and implementation of organizational policies and practices that considers the objectives and interests of all relevant parties, all of whom are entitled of consideration in managerial decision making. Stakeholder management literature places importance on the active management of stakeholder interests and has utilized various approaches including corporate social responsiveness and CSR activities. (e.g. Donaldson and Preston, 1995)

During the last decade, stakeholder has come to be associated with various definitions, with a broad definition given by Freeman (1984) as any group or individual who can influence or is influenced during the process of accomplishing the organization's objectives'. Preston (1990) found that GE, during the depression years in the U.S., identified with four major stakeholder groups who are shareholders, employees, customer and the general public. Additionally, Johnson and Johnson in 1947 listed customers, employees, managers and shareholders as strictly business stakeholders. However, Wood (Sear's president) viewed that the profit was as 'a byproduct of success in responsibly satisfying the legitimate needs and expectations of the corporation's primary stakeholder groups.' (Preston 1990) (Lee 2007)

According to more recent literature such as that of Clarkson(1995), stakeholders can be categorized into primary and secondary groups within and outside the firm. Primary stakeholders (e.g. shareholders, creditors, employees, customers and suppliers) include those groups with direct and sound legal claims on organizational resources. If any of the primary stakeholders become dissatisfied with and withdraws from the corporate system, the corporation cannot survive. (Clarkson 1995) Secondary stakeholders (e.g. dismissed workers, the natural environment, media, a wide range of special interest groups and general public) alludes to those parties whose claims on organizational resources are less soundly established in law thus are entitled less protection, or are based on non-binding criteria such as an ethical obligation or community loyalty.(Garriga Mele 2004) They affect, or are affected by the corporation's actions but are not engaged in direct transactions with the corporation and is not essential for its continuation. (Lee 2007)

The doctrine of stakeholder management pushes management to aim at outcomes that optimize the performance for and balance the conflicting demands of all involved stakeholders rather than maximize the results for one stakeholder group (i.e. shareholders). One of the primary objectives of the firm is to maintain the capability to balance the interests of different stakeholders in the firm. According to Wood 1991, social responsiveness of organization is based, in part, on the ability to meet the needs of the stakeholders. (Lee 2007)

According to Garriga and Mele, (2004) the corporate stakeholder analysis extends the corporate planning model to include external influences on the firm. The management's role includes public corporate planning and business policy making through the political negotiation processes among major stakeholders. This concept contrasts with decision making in strict accordance with economic rationality directed at maximizing profit for only primary stakeholders. In recent times, the groups of relevant stakeholders have come to include NGOs, activists, communities, governments, media and other institutional forces who increasingly voice the demand of what they consider to be responsible corporate practices from corporations. (Garriga andMele2004)

## **5.2 Stakeholder theory and stakeholder management**

Stakeholder theory may be the theory that is closest linked to managing interests external to corporation in the context of conservative and pure financial gain, although the stakeholder theory may be justified normatively, instrumentally or descriptively. (Dobers 2009)

The stakeholder management strategies can be operationalized by including their codification in company mission statements or official announcements (formalization), forums designed to promote consultation between relevant stakeholders on key issues (consultation) and representation of stakeholders (particularly secondary stakeholders) on company boards of directors (incorporation).

The areas of interest to corporations in stakeholder management includes topics such as determination of the best practices in corporate stakeholder relations (Benheim et al., 1998), the influence of stakeholder management on financial performance (Berman et al., 1999), the effect of stakeholder network on structural relations (Rowley, 1997) and successful balancing of the competing interests of diverse stakeholder groups by the managers. (Ogden and Watson, 1999) (GarrigaMele 2004)

To add, understanding of CSR activities by the managers largely influences the company's corporate social responsiveness. According to K.H Lee(2007), identifying and prioritizing selected stakeholders with respect to CSR hinges on top manager's understanding of and commitment to the stakeholders. According to the work of Wartick and Cochran (1985), Wood (1991), Clark (2000) and Lee (2007), corporate social responsiveness is a managerial tool for stakeholder management, and the level of corporate responsiveness is based, in part, on the management's capability to meet the needs of the stakeholders. (K.H. Lee 2007)

## **5.3 Normative stakeholder theory**

Following normative stakeholder theory grounded in ethical group of theories relating to CSR, stakeholders are groups of individuals with legitimate interests in procedural and/or substantive aspects of corporate activity



(stakeholders are identified by their interests in the corporation, whether or not the corporation has any corresponding structural stake in them) and the interests of all stakeholders are of intrinsic value that deserves to be taken into account for its own sake. (Donaldson and Preston 1996) In accordance with this theory, a socially responsible firm pays simultaneous attention to the legitimate interests of all appropriate stakeholders and needs to balance multiplicity of such interests. The behavior of all pertinent stakeholder groups is considered as a constraint on the business strategy. (Garriga and Melé 2004)

In order to discover how corporations may be governed and how managers ought to act in relation to normative stakeholder theory, a normative core of ethical principle merits consideration (Freeman, 1994) and one of them should include the doctrine of fair contracts. This fairness principle may be based on Rawls' characteristics of the principle of fair play: "mutual benefit, justice, cooperation, sacrifices, free-rider possibility and voluntary acceptance of the benefits of cooperative schemes. (Phillips, 1997, 2003)." From a practical perspective, the normative core of this approach is risk management. (Garriga, Melé 2004)

## **6 .KOREAN CHARACTERISTICS OF CSR**

### **6.1 Korean Characteristic**

U.S. has shareholder capitalism where the shareholders have absolute power of the management of the corporation. In Japan and Europe, in contrast, stakeholder capitalism, where employees and other stakeholders take part in the management of corporation, has developed. Korea has been influenced by both U.S. and Japan in terms of building its corporate institutions, so it will be an interesting task to see which model has taken deeper root in Korean corporate society. (Lee and Choi 2002) Unlike the history of corporate development in U.S., Korean corporations depended on the state's support, and there was no separation of management and ownership until quite recently. There has also been a negative image of cozy relationship between the government and business in the mind of ordinary people for a long time. These characteristics resulted in strong social pressure for corporate social responsibility. However, it is generally recognized that Korean corporations have strong recognition of economic responsibility but a low one for social responsibility. (Lee and Choi 2002)

In Korea, the relationship of mistrust among the people, corporations and the government became even more deeply rooted rather than improving as time passed by. The government and corporation mistrusted each other, and the people disliked the government and corporation both. The area where the corporations can take the leading initiative to improve such vicious cycles is social corporate responsibility. Corporate social activities can improve the trust of Korean people on the corporations, thereby increasing the social capital of the corporations. (Lee and Choi 2002)

Moral management means that the corporation proceeds beyond their legal obligations to consider the spirit of the related legislation and social consensus and preserve the morality of the management. Moral management has spread throughout the world along with the globalization. In accordance with this trend, Lee and Choi (2002) state that the number of corporations adopting code of ethics is increasing in Korea, and the number of corporation mentioning profitability and survival strategy as a purpose in codes of ethics is also increasing - meaning the Korean companies have begun to consider CSR as an essential part of competitive strategies.

In the 1950~60 in Korea, socially respected corporations were those that supplied products which satisfied basic human needs at a low price. In 1970 when the export led industrialization strategies were pursued by the government, there was a predominant consensus among the public that the corporations which contributed to the development of national economy by participating in the government initiated economic development plan and increasing exports were the best ones and thus were well respected by the general public. In contrast, the level of recognition about corporate social responsibility by economic actors was at a very low level. (Lee and Choi 2002)

After the Asian financial crisis, however, Korean people began to request the corporate management to satisfy increasing social expectations. The prevalent practice of window dressing, as well as its illegality, became the target of social censure. Thus more ethical management was called for in light of the Korean people's spirit. The potential influences of the stakeholders are also strengthening with the adoption of PL (product liability) law and shareholder representative suit. With the spread of internet, the cyber power of consumers, in pursuing collective actions when there is dissatisfaction towards the companies, has increased and this is becoming an important factor of consideration in doing business. Thus, the corporate management activities are becoming the target of public criticism when it goes against the Korean people's mentality even when it is perfectly within the sphere of the legality.

(Lee and Choi 2002)

However, there are still limits to such development. In the 80s, economic inequality and just redistribution became the center of social dialogue, and the Korean corporations came to recognize the need for social corporate responsibilities as the labor disputes and environmental problem became the social issues. However, the purpose of such response was just a reaction to the emerging social criticism, and the corporate social activities were reluctant reaction to social pressure rather than a proactive response. (Lee and Choi2002)In this respect, the main area of corporate social responsibilities until the late 80s was endowment. In the 1990s, there was renewed recognition of the corporations' social responsibilities due to increased criticism about unethical corporate activities in Korea including slush fund, and the increase in corporations' global activities and the corresponding need for communications with the local community. However, this renewed interest in corporate social responsibilities was stemmed by the recession in the late 1980s.

Also due to the conception of the Korean companies that corporate social activities are supplement to and outside the boundary of major management activities, they perceive corporate social activities as the philanthropy by the haves.( Korean Federation of Industries 2000, KFI in the below) Thus, unlike in the case when CSR is recognized as a social investment in the long term, CSR activities are dispersed among many different areas without the core centering in their major (business) activities area. (Lee and Choi2002) There is also lack of professional human resource and department overseeing corporate social responsibility activities in the corporations.

Even when there are such resources, they become isolated from other business activities due to the lack of cooperation among the different departments. Also due to the generalized conception among people that regard the corporation in association with the owner, the corporate social activities in many cases in Korea have been carried out in order to improve the owner's image without the support of the institutional infrastructure. This type of corporate social activities fluctuates widely depending on the mood of the owner of the corporation or the performance of the firm and the economy as a whole. This explains the downturn of the corporate social activities during the 1997 IMF economic crisis in Korea.

According to a study done by K.H Lee ( 2007) on Korean electronics companies, large companies such as Samsung and LG electronics have placed emphasis on their socio-economic contributions and their corporate reputation. The assumption underpinning these strategies is that establishing positive relationships with stakeholders is ethical; Plus it makes a good business sense.

The consensus among the corporations that corporate philanthropy is required in order to maintain efficient social welfare and just redistribution is also spreading globally with the expansion of market economy and market integration. This is also the case with Korea. In terms of corporate philanthropy in Korea as of 1999, corporate endowment was the largest in education (44.1% of the total endowment), followed by scholarship, academic activities, and general social welfare in order. (There is relatively smaller endowment in preservation of the tradition, environment, international cooperation and exchange and health and medical area) (Lee and Choi 2002)

## **6.2 Comparison with U.S.**

The lack of institutional support from outside the corporations reduces the corporate social activities to a one-time philanthropy. (Lee and Choi 2002)This lack of institutional infrastructure in Korea contrasts with that of U.S. where institutional infrastructure for corporate social responsibility such as tax benefits, matching grants, government provision of subsidy is abundant. Also the motivation of U.S. corporation's social activities depends on enlightened self interest or recognition of social embedded ness while that of Korea depends on strictly economic and legal routines such as quasi tax payment or tax deduction.

Also a majority of U.S. corporations have a team of people exclusively dedicated for corporate social activities and have an understanding of what the beneficiaries need while Korean corporations tend to reactively respond to the request of the beneficiaries. (Lee and Choi2002) Lastly U.S. tend to rely on preexisting horizontal network that professionals overseeing corporate social activities or CEOs have, while Korean corporate social responsibilities depend on the request of the beneficiaries communicated through the vertical hierarchy. (Lee and Choi 2002)

Somewhat contrastingly, Hayes and Abemarhy (1980) hold that Korean managers tend to focus on corporate responsibility toward customers while American managers emphasize the interests of stockholder as a corporate objective and are more concerned with short-term goals. Thurow also claims that shareholders come first, with customers and employees a distant second and third for American firms while employees come first, with customers second and shareholders a distant third for Japanese firms. (Thurow 1992)

However, Nakano(1997) found that, unlike prior beliefs and findings, Japanese, Korean and American managers have similar views on corporate responsibility – customers win the first place, with employees ranked second and shareholders third. Stakeholders came fourth and below are different among respective studies. For example, Korean managers tend to have more responsibility to suppliers compared to American or Japanese managers. This may be due to the close locked-in supplier- relationships such as those observable in Cheabul and supplier relationship (Choi and Nakano 2008). Compared to U.S. companies, Both Japanese and Korean companies have tendencies to use less formal ways of instilling ethical values into organization. For example, Japanese and Korean managers tend to build corporate ethics based on trust in their employees rather than formal systemic measures. (Different means and extent of institutionalization of business ethics in respective countries)

### 6.3 Comparison with Japan

According to Choi and Nakano study (2008), unethical practices seem to have decreased both in Japan and Korea, but the change is more dramatic in Korea. This could be because there was a significant shift in financial and social structure after the IMF bailout in Korea. This may have affected the perceptions of the nature and prevalence of unethical industry practices.

In terms of managers' experience of ethical conflict, compared to the study of 1996 in Choi and Nakano, (72.3% of the Japanese interviewees respondents responded positively - "of the interview respondents" omitted in the below), significantly fewer Korean managers reported experience of ethical conflict between company interests and personal ethics in 2005 (31.5%), which may be attributed to the efforts of the government and companies to enhance business ethics since the period of economic crisis of 1997.(Choi and Nakano 2008) Also, Korean managers experience less stress of ethical conflicts in lay off, maybe because decisions to lay off employees seems to be less unethical in Korea compared to Japan or the U.S. due to Korean managers' tendency to consider the company's interest first (According to Choi and Nakano survey in 2005, – 50.7% of Japanese managers tended to choose 'depends on the situation', while 54.5% (more than half) of Korean managers tended to choose 'company interest' when there is conflict between company interests or personal ethics).Or this could be because they have less experience in firing and layoff situations due to the stronger legislative restrictions on layoffs in Korea.

Due to the Confucian influence on Korean employees, Korean managers tend to make ethical decisions in order to maintain a higher solidarity with superiors compared to Japanese and U.S. managers (Choi and Nakano 2008) Also, Korean managers place more value on economic profits than on business ethics compared to Japanese and American managers, (although there has been some improvement over the last decade after the financial crisis) (Choi and Nakano 2008)

According to a study done by Choi and Nakano (2008) majority of Korean managers (87.2%, in 2005) feel that ethical standards are higher today (compared to 50.7% of Japan) than before. The primary way for building ethical values in Korean corporations was the informal "CEO's frequent emphasis on ethical actions, (67.3%)". Secondary cause was the increased public scrutiny and awareness (63.9%), while the third cause was the "new social expectations for business's role in the society (60.6%)". These figures show that the social pressure imposed on corporations to adopt ethical business practice during the last decade has played a significant role in improving the standards of business ethics in Korea. Also 67.1% of Japanese managers mentioned pressure for survival in a slowdown in the economic development as a major factor causing lower ethical standard while 68.4% and 61.8% of Korean managers chose "political corruption and loss of confidence in government" and "greed and the desire for gain" respectively.(Choi and Nakano, 2008).

Korean business environment took after both the Japanese and the American business culture because of Korea's history in the last half century. Thus it is not surprising that "Korean managers exhibit a set of characteristics that is a mixture of American and Japanese managers'.(Bae and Chung 1997)". Korean managers experience more conflicts with their suppliers while Japanese managers are more prone to conflicts with their superiors. However, Korean and Japanese corporations both have made remarkable progresses in institutionalizing business ethics in the last decade. (Choi and Nakano 2008)

### 7. USING WEBSITE DISCLOSURE AS PROXY FOR CSR (AND STAKEHOLDER RECOGNITION)

Social disclosure can be defined as reporting that considers environmental, ethical and human issues. (Gray et al., 1995 a; Hackston and Milne, 199; Adams et al., 1998 McMurtrie, 2005; Solomon and Darby, 2005; Branco and Rodrigues, 2006; Golob and Bartlett, 2007)CSR reporting by large corporation is done not only for society at large but also specifically for a range of stakeholders (investors, actual and potential employees, NGOs, business customers) (Chapple and Moon 2005)



The use of the internet as an information dissemination channel has become more frequent, and might imply that a firm is modern, up to date and of high quality. The internet based corporate disclosure and financial reporting are the channels of communication with stake holders that have advantage over their paper based equivalent (cost effective), unlimited capacity, global reach, flexibility, versatility, timeliness and speed. (Tagesson 2009) South Korea (and Singapore) has internet usage comparable to U.K. Emerging market information and computer technology growth rates are high, averaging 28% in the period from 1992 to 1999. Thus focusing on the websites of Korean companies as the base of analysis would be valid in terms of its representativeness.

It may be argued that only large companies may have websites. Very large companies tend to be agenda setters in CSR and have relatively greater financial and other resources to devote to it. They also assure the social responsibility of their supply chains, thereby affecting smaller organizations. Thus analyzing their behavior would represent the overall sketch of CSR activities in the country.

CSR reporting may not necessarily be a reflection of CSR policies and practice. However the reputation damage coming from the discovery of actual CSR activities being smaller than the claims made on the website would be great. So the companies have incentives not to inflate their CSR activities on the website in comparison to their actual CSR practice. Also, one of the key themes in CSR is its conspicuous reporting. The companies would disclose and report those aspects of CSR that they consider important. Thus the information disclosed on the company website acts as an ample proxy for what the companies consider an important part of the CSR and the society as well as important stakeholders.

Lastly, although the layouts and style of websites vary enormously, they offer a functionally uniform unit of analysis in that all represent an official presentation of companies' policies and practices. (Chapple and Moon 2005)

## 8. DATA

The author searched the websites of 104 largest (by sales) Korean companies to find out about the degree of their CSR disclosure. The items checked are listed in the following:

1. Whether the company discloses sustainability report on the website
2. Whether there is an organized company volunteer group
3. Whether there is an exclusive department overseeing CSR activities
4. Whether the company discloses Code of ethics, ethics disclosure
5. Whether the company mentions Corporate Governance
6. Whether the company mentions Employees welfare
7. Whether the company mentions the interest of Supplier, collaborating firm (socially responsible production)
8. Whether the company mentions Consumers
9. Whether the company alludes to Local community
10. Whether the company mentions Environment

The first three items were counted as proxies to indicate the degree of commitment of each company with respect to CSR activities. The existence of the first four items indicated greater commitment of the corporations to CSR. The last six items were included to check whether the website mentions each stakeholder on their website – in other words whether the companies considered the interests and welfare of each actor as important, which means that the companies recognized each of them as a crucial stakeholder. The last seven items were taken from GRI index (CSR proxies of ethics and each stakeholder from UN).

The category was coded 1 if the company's website mentions each category (stakeholder) or has such department/ discloses reports. They were recorded 0 when not referred to or in absence. The employee welfare mentioned in the recruitment section on the website was counted as belonging to the employees' welfare category. Corporate governance mentioned in the Investor relations section on the website was also counted under the corporate governance category. The words (such as shareholders, consumers, employees, suppliers) mentioned once in the Company Vision section was not counted under each stakeholder categories, as it seemed difficult to consider them as the companies' dedication to their welfare. The content of the ethics code (the words mentioned as a part of ethics code) was also not included in the analysis due to similar reasons. Thus the words mentioned in the ethics code were not counted. 6 sigma principal or quality management was not counted under consumer category as it seemed difficult to consider these programs as pursuing consumer interest for the

sake of their welfare. Win - Win strategy mentioned on the website was counted under the supplier category as they promote the smaller suppliers welfare. Compliance program<sup>1</sup> was also counted under the supplier category as the program includes improving the welfare of the suppliers. Existence of matching grant programs was counted under the existence of exclusive department for CSR and charity organization.

The following table indicates how many percentages of the 50 largest and 100 largest companies (in terms of sales as of 2008) mentioned (or possessed), and therefore considered important, each stakeholders (and the first three categories) respectively.

**Table I.** The ratio of the website disclosure of 50 largest companies referring the each category

	Sustain ability Report	An organ ized volun teer group	Existe nce exclusi ve depart ment or charity organi zation	Ethic s disclo sure	corpor ate gover nance	Empl oyees	Suppliers/col laborators (socially responsible production)	Custo mers	Local comm unity	Enviro nment
percenta ge of compani es mentioni ng each category	0.36	0.48	0.4	0.74	0.64	0.58	0.26	0.22	0.8	0.78

**Table II.** The ratio of the website disclosure of 104 largest companies referring the each category

	Sustainabi lity Report	An organ ized volun teer grou p	Existe nce of exclusi ve depart ment or Charit y organi zation	Ethic s discl osure	corpor ate gover nance	Empl oyees	Suppliers/col laborators (socially responsible production)	Custo mers	Local comm unity	Enviro nment
perce ntage of comp anies menti oning each catego ry	0.30	0.46	0.38	0.72	0.40	0.56	0.34	0.16	0.84	0.70

The sketch of CSR between the 50 largest and 103 largest companies tends to be similar.

The following table indicated the relationship between the performance and the degree of CSR, scaled from 0-10 with 10 being the most responsive to CSR and 0 being the least responsive, in the large Korean companies. The degree of CSR has been measured by counting how many categories of the 10 items in the above have been mentioned by each company on their websites. The performance of each company has been measured by their

<sup>1</sup>공정거래자율준수

ROE (Operating income before tax /Equity, measured as of 2008 Dec). The size of each company, measured by the amount of their sales recoded in the financial statement as of 2008 Dec., has been included as a control variable. Marketing expenses and R&D expenses, found in the companies' consolidated financial report measured as of 2008 Dec, were also included as control variable. Financial firms and a few other firms have been left out from the sample due to the unavailability of data such as marketing and R&D expenses. Thus the sample has been reduced to 53 companies. Finally, age of the firms has also been included as control variables.

**Table III.** CSR disclosure and ROE ( Performance)

ROE Performance	Model
_cons	0.0083
	(0.1283)
CSR Degree	0.0036
	(0.0173)
Age	0.0001
	(0.0021)
Sales	0.0000
	(0.0000)
Marketing Fee	0.0000
	(0.0000)
R&D Spending	0.0000
	(0.0000)
No of Observation	53
R-Squared	0.0172
F value	0.9743

The degree of CSR disclosure appeared to have no meaningful affect on the firm performance with the size, age, marketing fee and R&D spending of the company controlled. (table III) This could possibly be the result of the fact that perceived importance of CSR is not yet deeply rooted among Korean consumers, failing to reward the companies that have good CSR disclosure, with their purchasing and other selection behaviors. Despite the insignificance of the relationship between CSR degree and performance with various control variables included, the sign of the coefficient is, nonetheless, positive.

**Table VI.** Correlation of CSR disclosure and ROE (Performance)

	ROE Performance	CSR Degree	Age	Sales	Marketing Fee	R&D Spending
ROE Performance	1.0000					
CSR Degree	0.0475	1.0000				
Age	0.0089	-0.1770	1.0000			
Sales	0.0804	0.1800	-0.2152	1.0000		
Marketing Fee	0.0708	0.1833	0.1413	0.3218	1.0000	
R&D Spending	0.0287	0.1728	0.0731	0.2970	0.9104	1.0000

In terms of correlations among the factors, positive correlation was observed between firm performance and CSR degree. Thus it can be inferred that there is, overall, roughly a positive correlation between CSR degree and performance.

## 9. CONCLUSION

It seems that Korean companies score very highly in terms of ethics disclosure and concerns for the local community and the environment. This indicates the large Korean companies' high understanding of their obligation to the general public and moral (ethical) management. A little more than half of 104 largest Korean companies consider employees as an important stakeholder. This resonates with the contentious atmosphere between the management and the labor union frequently observed in the annual management-labor union negotiations and disputes. About half of the 104 largest companies researched had a company based organized volunteer group, indicating high awareness of CSR among the employees and their social obligation as a labor force belonging to the more prestigious part of labor market – employees to the large Chaebol corporations. About 40 percent of 104 largest companies had departments exclusively overseeing CSR activities or charity organizations in 2008. Though not up to par with their U.S. counterparts, this is a substantial increase from only 22.3% of the total 147 corporations in 1998 that have a department or person in charge dedicated to corporate social responsibilities, in the survey published in a report by KFI in 2000. This may be a sign of improvement of CSR activities and recognition and extension of CSR institutionalization by Korean large companies compared to the past.

In contrast, more attention needs to be provided in publishing sustainability report (30%), in recognizing suppliers (34%) and customers (16%) as valid stakeholders. The 50 largest companies, on average, tend to mention corporate governance and customers more than the next 50 largest companies. In contrast, the rate of mentioning suppliers increases as the pool of the company extends from the largest 50 to 100.

According to other studies and surveys, Korean companies tend to pay more attention to the suppliers they collaborate with compared with their western counterpart. The low rate of mentioning suppliers as important stakeholder on the website can be reconciled with such high commitment if one considers that suppliers may have a different communication channel with the large companies, therefore reducing the need to contain and/or disclose such material on the corporate website.

The especially high level of recognizing local community and mentioning environment may be explained by the assumption that the Korean companies consider the CSR in an upper handed approach in relation to the beneficiaries. In other words, CSR activities take the form of corporate philanthropy. The companies, however, have more room to improve in recognizing other nontraditional stakeholders who are not as salient as employees or suppliers. Also the high level of ethics disclosure indicates the Asian (Confucian) culture of emphasizing morality.

One shortfall of this research is that the relative state of corporate social responsibilities in Korean large companies cannot be ascertained because there is no comparison to benchmark it to. This could be overcome by including the website disclosure analysis of other countries that are generally recognized either to have higher standard of CSR practices such as U.S. and Japan, or to have similar culture such as Japan (again), Singapore or Taiwan. Such comparative analysis will provide more objective and comparative findings than the analysis of CSR disclosure in the websites of only Korean large companies.

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