



LEUNGCHOPAN

The GlobalEthicist

## “Dangerous opportunity”: impressions on corporate integrity in South Korea

By Andrea Bonime-Blanc

A recent visit to the technology-led economic powerhouse that is South Korea prompts a review of the risks and opportunities for the country.

In May, I had the privilege of speaking on the topic of corporate reputation risk and resilience at the third annual Good Company Conference sponsored by the Korea Management Association and Sisa Journal, South Korea’s leading weekly news magazine. During the Q&A that followed my prepared remarks, a local thought leader in the audience of 700 asked me a tough question: As I had prepared to come to South Korea, what had my impression been of the state of corporate integrity in the country, given the various corporate and governmental scandals that dominated the headlines in recent times.

A dramatic and sad example of this was the terrible Saewol Ferry disaster that led to the loss of more than 300 lives (most of them high-school students on a school trip). Investigations subsequently uncovered a pattern of apparent long-standing corporate and regulatory neglect, malfeasance and possible criminality on the part of the company, its owners and executives, and government regulators who were supposedly enforcing laws to protect the public, employees and other stakeholders.

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While I tried to give a fair and humble answer to the question posed by this gentleman (given my limited knowledge of this particular marketplace), I also tried to place the South Korean corporate integrity track record in the context of the larger global picture, including the not so stellar records in other countries, such as the US financial sector integrity breakdown of 2007-8, whose effects we are still feeling today.

### **A dangerous opportunity**

While in Korea, a leading Korean economist, former government official and the host of the Good Company conference, Jong Nam Oh, shared a fascinating word from the Chinese language meaning 'risk' whose literal translation is 'dangerous opportunity'. Since this trip, I have had a month to explore further the great question I was asked at the conference and this small lesson on the Chinese word for 'risk'.

The recent history of South Korea is amazing. From a deeply divisive, traumatic civil war only 50 years ago, South Korea has emerged as one of the economic superpowers of the past two decades. With very limited geographical size, a medium sized population of about 50 million, and surrounded by hostile or at least not terribly friendly countries, it nevertheless occupies a leadership position in the world economy (ranking 12th worldwide with a GDP of more than \$1.2tn, according to World Bank data) and is a technology leader, hosting in Seoul one of the handful of most innovative and advanced technology hubs in the world.

In essence, I think South Korea is at a possible cross-roads, maybe even a turning point on the topic of corporate risk and integrity issues. It faces a 'dangerous opportunity' – dangerous in that the outcome of this turning point is not guaranteed and could be negative, but an opportunity because for the first time in a long while, there seems to be a hope, impetus and a sense in the local community that there is a real opportunity for positive change.

### **The 'danger'**

To be frank, everything I was reading and reviewing in preparation for my trip to Seoul was quite ominous. In addition to the dramatic and heartbreaking case of the Saewol Ferry, a number of additional major Korean company-based scandals or reputational disasters had emerged in recent times.

**Transparency International.** To begin with, Transparency International, in its 2014 Corruption Perception Index, ranks South Korea in an unflattering



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A 'dangerous opportunity' for South Korea

*South Korea is at a possible turning point on the topic of corporate risk and integrity issues*



43rd place (out of 175 countries) with a score of 55 out of 100 (where Denmark, the least corrupt, scores a 92, and Somalia, the most corrupt, scores 8). The good news, however, is that South Korea is and has been a signatory to the OECD Anti-Bribery and Anti-Corruption Convention since its inception in the late 1990s.

**The RepRisk Index.** Another data point can be gleaned from the RepRisk Index of Most Controversial Companies. A fairly dramatic picture emerges:

- Of the top 10 most controversial companies during the two years from August 2012 to August 2014<sup>1</sup>, three of them were South Korean:
  - Chonghaein Marine (the Saewol Ferry owner) and the most exposed company in the world during that two-year period
  - KT ENS Corp, a software company
  - Semo Group, a transportation company
- As of July 2015, the RepRisk Index continues to show 9 of the top 20 most controversial companies are South Korean.

**The Edelman Trust Barometer.** According to the Edelman Trust Barometer for 2014, which measures stakeholder trust in government and business every year, South Koreans' trust in their government and business is very low compared with populations in the rest of the world, weighing in at 33% trust in government and 36% trust in business. In many countries, trust is weak in either business or government but in only a few countries is trust in both this low (in 2014 of the 27 leading countries surveyed for the Edelman Trust Barometer, only Spain, Argentina and Ireland ranked lower than South Korea).

### **The 'opportunity'**

So why in the midst of some of this gloom and doom do I believe that there is real opportunity for building better integrity and resilience in business and even government?

**The business sector is mobilising.** My first and most important reason comes from the people I talked to in South Korea: there is a real feeling that things will change this time. Stakeholder trust has hit a new low and the business sector, especially, has started to mobilise. The fact that the Good Company conference attendance increased by almost 50% from last year certainly seems to indicate something about this trend.

**So is the government.** While one could call them platitudes, there were very strong pro-transparency, pro-integrity statements from the government leaders from both the legislature and executive branch at the conference and the coverage given by the media was intense.

**The pressure of competition.** The Good Company Index within South Korea, which was featured at the conference, is now ranking 4,000 South Korean companies on a variety of measures to do with integrity, transparency,

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### South Korea aspires to global leadership

and other aspects of corporate behavior. This is starting to take hold in the corporate fabric of the nation as companies strive to be seen in a good light, or better light than before.

**Ethics and compliance programmes.** A sense of what it means to have an effective ethics and compliance programme within a corporation is becoming clear, as leading companies such as Samsung are beginning to implement such global programmes.

**Global leadership role.** South Korea wants to have a leading role in the world beyond pure economics – this is a country that may be relatively small in size but is punching above its weight. A series of very good essays on the growing global role of South Korea on the world stage has just been published by the US-based Council on Foreign Relations and is available for [free download](#).

**Reputation risk and super-connectivity.** In this age of hyper-transparency and super-connectivity where there is increasingly nowhere to hide and reputations are lost in nanoseconds, both governments and companies are realising that transparency, while difficult, presents a great opportunity and that it is better to join the trend than to try to beat it. ■

1 The RepRisk Index (RRI) is a quantitative risk measure that captures criticism (according to input by RepRisk analysts) and quantifies a company or project's exposure to controversial environmental, social and governance issues. It does not measure a company or project's overall reputation, but rather is an indicator of their reputational risk.

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