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A Proposal of Effective ESG Business Activities in linkage with Investment Attraction for Start-ups

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효과적인 ESG 경영활동을 통한 스타트업의 투자유치 방안의 제안

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Executive Summary (English)

The capitalist system based on human-centered liberalism and free market economy has been continuously developing over the past several centuries. Also, it is undeniable for all of us that the development of the capitalist system has played a pivotal role in increasing the income of citizens and improving the quality of life. However, at the same time as these benefits, the emergence of monopoly companies and the increase of the poor and income inequality can be seen as unavoidable problems of the existing capitalist system.

The capitalist system has been supplementing the problems of the system by changing the division of roles between the government and the market in order to resolve the increasingly severe income inequality and polarization. The key to the change lies in the degree of government intervention in the market economy, and this change could become the basis for the capitalist system to dominate the world economy until now. In addition, as the role of companies in the market evolves from shareholder capitalism to stakeholder capitalism, the capitalist system is entering a new phase.

In shareholder capitalism, a company uses all available resources to obtain maximum profits, and through this, it plays a role in helping the national economy by maximizing the profits of shareholders. An active proponent of this is Professor Milton Friedman, winner of the 1976 Nobel Prize in Economics. However, stakeholder capitalism means that, while managing a company, it is necessary to consider not only shareholders, but also other stakeholders, such as employees, consumers, and local residents, as well as environmental issues. It can be said that the vision of stakeholder capitalism was officially adopted in the ‘2020 Davos Statement’ adopted at the World Economic Forum in January 2020, reflecting the current of the times. Stakeholder capitalism was already on the rise in the 1970s, but the reason why it has recently gained attention was from the view that companies were obsessed with excessive short-term profits and paid less attention to other issues. The polarization of economic growth has intensified, and although the common concerns of mankind, such as climate change and infectious diseases, are closely related to economic growth, companies have paid less attention to these issues. In particular, the background of the global financial crisis that originated in the United States in 2008 is considered to be the major role of corporate management focused on maximizing profits.

The change in the perspective on the capitalist system also changed the scope of the social role of enterprises. In the shareholder capitalism system, the social role of companies is to contribute to economic growth through the maximization of shareholder profits, and the supply of public goods needed by the

general public is the role of the government, not private companies. However, in stakeholder capitalism, corporate social responsibility is further expanded. One of the most cited definitions of Corporate Social Responsibility, published by the European Union (2001), is “a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis”. (강성진, 김태황, 오형나, 정태용, 김용건, 2021)

As such, corporate social responsibility has recently been widely emphasized, and there is a strong demand to consider not only financial factors but also non-financial factors in investment decisions. Here, non-financial factors can be defined as 'ESG', which reflects the first letters of Environmental, Social, and Governance. The expanded demand for corporate social responsibility can be seen as including the content that it will be able to contribute to the sustainable development of not only the company's own sustainable management but also the nation and all of humanity.

Therefore, in this study, based on an understanding of the concept of ESG, the reason why ESG is important and the definition of ESG management activities are first examined. In addition, since impact investment can be a source of long-term capital raising for start-ups that practice ESG management, this study focuses on how ESG management practices of start-ups can lead to effective capital raising.

To this end, the case studies will identify the reason why start-ups introduce ESG management even in the lack of resources and knowledge, together with what benefit comes around by implementation of ESG management. In addition to that, the result of case studies would suggest key considerations in implementing ESG management strategy applicable to start-ups with its detailed action plan. Another primary topic to be discussed will become communication to the result of creating value in environmental, social and economic perspectives for various stakeholders including investors. Therefore, the preparation and disclosure of the sustainability report, which is an essential task for effective communication, will be described in detail through this text with focusing on related regulations, major contents and issues, and the report's verification procedure. Additionally, the study will describe how start-ups can preemptively respond to the demands of institutional investors, to have successful investment attraction through obtaining ESG related investment information with utilizing the sustainability reports published by financial institutions or large pension funds.

‘Stakeholder capitalism’ and ‘ESG management’ have now become indispensable keywords in overcoming the economic, environmental, and social crises. On the other hand, it seems that there is currently no clear system in the unified standards for the specification of ESG related investment policies, the government's consistent ESG policy promotion, and the preparation and disclosure of sustainability reports. However, in recent years, the establishment of the ESG investment taxonomy, the establishment of the ESG risk management system, and the government's incentive policy for ESG management have been actively discussed, and it is expected that there will be results that can be helpful for companies that want to introduce ESG management in the near future. In particular, the Stakeholder Capitalism Metric announced at the Davos Forum in August 2020 is expected to enable the preparation of a consistent and comparable sustainability report for each company. It is thought that in the future, if start-ups actively refer to the standards, it will be possible to prepare and disclose more objective sustainability reports. The countermeasures of start-ups to these continuous changes in management and investment environment should be dealt with in a more advanced form later, based on this study.

Executive Summary (Korean)

인간 중심의 자유주의(Liberalism) 사상과 자유시장경제 (Free Market Economy)를 근간으로 한 자본주의 체제는 지난 수세기 동안 지속적인 발전을 거듭해 왔다. 또한 자본주의 체제의 발전이 시민의 소득을 증대 시키고 삶의 질을 높이는 데 중추적인 역할을 해 왔다는 것은 우리 모두가 부정할 수 없는 사실이다. 다만, 이러한 혜택과 동시에 독과점 기업의 출현, 빈곤층 및 소득격차의 증가 등은 피할 수 없었던 기존 자본주의 체제의 문제점이라 볼 수 있다.

자본주의 체제는 점차 극심해지는 소득 불평등 및 양극화를 해소하기 위해 정부와 시장간 역할 분담의 변화를 통해 체제의 문제점을 보완해 왔다. 변화의 핵심은 시장경제에 대한 정부 개입의 정도에 있으며 이러한 변화는 자본주의 체제가 지금까지 세계경제를 지배할 수 있는 기반이 될 수 있었다. 또한 시장에서는 기업의 역할이 주주자본주의(Shareholder Capitalism)에서 이해관계자 자본주의(Stakeholder Capitalism)로 진화해 가면서 자본주의 체제는 새로운 국면을 맞이하고 있다.

주주자본주의에서 기업은 모든 가용한 자원을 이용하여 최대의 이익을 얻고, 이를 통하여 주주의 이익을 극대화해 국가 경제에 도움을 주는 역할을 한다. 이에 대한 적극적인 지지자는 1976년 노벨경제학상 수상자인 밀턴 프리드먼(Milton Friedman) 교수이다. 반면 이해관계자 자본주의는 기업을 경영하면서 주주만이 아니라 다른 이해 당사자들인 종업원, 소비자, 지역주민에서 더 나아가 환경문제까지 고려해야 한다는 것이다. 2020년 1월 세계경제포럼(World Economic Forum) 행사에서 채택된 '2020 다보스 성명서'에 이해관계자 자본주의 비전이 공식적으로 채택될 정도로 시대적 조류를 반영한다고 할 수 있다. 이해관계자 자본주의가 이미 1970년대에도 대두되었지만, 최근에 주목을 받게 된 계기는 기업들이 과도한 단기이익에만 집착하여 그 이외의 문제에는 관심을 덜 두었다는 시각에서 출발하였다. 경제성장 양극화가 심해졌고 기후변화와 감염병과 같은 인류 공통의 관심사는 경제성장과 관련이 깊음에도 불구하고 정작 기업들은 이러한 문제에 관한 관심을 덜 두었다는 것이다. 특히 2008년 미국발 글로벌 금융위기가 나타난 배경은 이익극대화에만 몰입한 기업경영의 역할이 큰 것으로 보고 있다.

자본주의 체제에 대한 시각의 변화는 기업의 사회적 역할에 대한 범위도 변화하게 하였다. 주주자본주의 체제에서 기업의 사회적 역할은 주주이익 극대화를 통하여 경제성장에 이바지하는 것이라고 보고 있으며, 일반 국민이 필요한 공공재의 공급은 민간기업이 아닌 정부의 역할이라는 것이다. 그러나 이해관계자 자본주의에서는 기업의 사회적 책임은 더욱

확대된다. 가장 많이 인용되는 기업의 사회적 역할(Corporate Social Responsibility)에 대한 정의 중 하나는 유럽연합(2001)에서 발표한 것으로, “기업들은 자발적으로 사회적 및 환경적 문제를 자신의 영업활동과 이해관계자들과의 상호관계에 통합시키는 개념”이다. (강성진, 김태황, 오형나, 정태용, 김용건, 2021)

이처럼 최근 기업의 사회적 책임은 폭넓게 강조되고 있으며, 투자 결정에 있어서 재무적 요인 뿐만 아니라 비재무적 요인도 고려해야 한다는 요구가 강하게 이루어지고 있다. 여기서 비재무적 요인을 ‘ESG’라고 정의할 수 있는데, 이는 환경(Environmental), 사회(Social) 그리고 지배구조(Governance)의 첫 자를 반영한 것이다. 확대된 기업의 사회적 책임에 대한 요구는 기업 자신의 지속가능한 경영 뿐만 아니라 국가, 더 나아가 인류 모두의 지속가능발전에 이바지할 수 있을 것이라는 내용을 포함하고 있다고 볼 수 있다.

따라서, 본 연구에서는 ESG의 개념이해를 바탕으로 ESG가 중요한 이유, ESG 경영활동에 대한 정의를 먼저 살펴보고 최근 활발히 진행되고 있는 사회책임투자, 프로그램연계투자 및 지속가능 투자 등을 포괄하고 있는 임팩트 투자에 대해 알아보고자 한다. 또한 ESG 경영을 실천하는 스타트업 기업에게 있어서 임팩트 투자는 장기 자본조달의 원천이 될 수 있기 때문에, 본 연구 주제에 따라 스타트업 기업의 ESG 경영실천이 효과적인 자본조달로 연결될 수 있는 방안에 대해 중점적으로 검토하고자 한다.

이를 위해, 대기업에 비해 ESG 관련 자원이나 지식 수준이 상대적으로 취약한 스타트업 기업이 ESG 경영을 도입하고자 하는 이유와 이로 인해 얻을 수 있는 효익에 대해 임팩트 투자를 유치한 스타트업 기업의 사례 조사를 통해 알아볼 것이다. 사례조사 결과로부터 ESG 경영에 필요한 핵심 고려사항을 도출하여 스타트업 기업에 적용할 수 있는 ESG 경영 전략 수립 및 세부 실천 방안을 제시하고자 한다. 이후 ESG 경영으로 인한 환경, 사회, 경제적 가치 창출 결과를 투자자 및 여러 이해관계자들과 효과적으로 소통하는 것 또한 ESG 경영의 핵심 절차 중 하나이다. 따라서 효과적인 소통의 필수적 과업인 지속가능경영보고서의 작성 및 공시 방안에 대해 관련 규정, 주요 컨텐츠 및 이슈, 보고서의 검증절차 위주로 본문을 통해 자세히 기술할 것이다. 다음으로 주요 금융기관, 연기금 등의 지속가능경영보고서를 검토하여 향후 ESG 관련 투자동향 및 투자 리스크 관리 방안에 관한 정보를 습득함으로써, 기관투자자들의 투자 수요에 선제적으로 대응할 수 있는 투자 유치 전략에 대해 살펴볼 것이다.

‘이해관계자 자본주의’ ‘ESG 경영’ 등은 이제 당장의 경제·환경·사회 위기를 타개하는데 없어서는 안 될 키워드가 되었다. 이에 비해 ESG 관련 투자 방침의 구체화, 정부의 일관된 ESG 정책 추진, 지속가능경영보고서 작성 및 공시 등에 관한 통일된 기준은 현재 선명한 체계를 갖추지 못한 것으로 보여진다. 다만, 최근 몇 년 사이 ESG 투자 Taxonomy 제정,

ESG 리스크 관리체계의 수립, 정부의 ESG 경영에 대한 인센티브 정책 등에 관해 활발히 논의되고 있으며 머지 않아 ESG 경영을 도입하려는 기업에 도움이 될 수 있는 결과가 있을 것으로 기대되어진다. 특히 2020년 8월, 다보스 포럼에서 발표된 Stakeholder Capitalism Metric은 기업별로 비교 가능한 일관된 지속가능경영보고서의 작성을 가능하게 할 것으로 예상되며, 향후 스타트업 기업은 적극적으로 해당 기준을 참고한다면 보다 객관적인 지속가능경영보고서의 작성 및 공시가 가능할 것으로 생각된다. 이러한 계속적안 경영 및 투자환경 변화에 따른 스타트업 기업의 대응책은 이번 연구를 기초로 좀 더 발전된 형태로 후속 연구에서 다루어져야 할 것이다.

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I. Introduction

1. Research Motivation

ESG is one of the current economic management-related terms that are frequently mentioned in the rapidly changing economic environment. Although it is not difficult to understand the general meaning and concept of ESG through various media, it is relatively difficult to come across specific implementation plans or practical guidelines in the actual management of a company. In particular, in the case of small and medium-sized enterprises or start-ups, the difficulties are much higher than that of large enterprises. However, one of the biggest trends in the recent investment market is Impact investing, which is also an investment field actively executed by financial institutions, pension funds, and other funds, focusing on companies that are effectively implementing ESG management policies.

In the case of start-ups, securing the necessary funds through investment attraction is one of the essential success factors, so if they attract the impact investing described above through ESG management practice, they will be able to take a step closer to the business goals they want to achieve, which will contribute to increasing the value of various stakeholders.

However, in the case of small and medium-sized enterprises and start-ups, it would be difficult to actively practice because there are many constraints on lack of resources and knowledge within the enterprise to practice ESG management.

Therefore, this study shall present the establishment of ESG management strategies for start-ups and their specific tasks to be set and also identify the details of preparing sustainable management reports, which are means to actively communicate with various stakeholders. Accordingly, this study will be conducted to help many start-ups achieve their business goals by attracting smooth investment and to suggest ways to increase their social contribution through the active implementation of ESG management.

2. Research Method

The study is aiming to present a practical methodology that how start-ups implement ESG business activities to have successful investment attraction. Hence, the understanding of the conceptual framework of ESG management shall be the primary step for that, and it would be attained by review of the works of literature published through various types of media in recent. To make a comprehensive understanding, the primary step specifically includes the progress of introduction of ESG management with its history, the reason for the considerable importance of ESG, and the definition of ESG business activities.

The next step will identify the fruitful benefits originated by ESG management for start-ups in the perspective of investment attraction. Since the impact investing has a linkage with ESG investment, the definition of impact investing is necessary to be explained. In addition, an investment policy that belongs to the National Pension or Financial Institutions shall be investigated to obtain knowledge on why impact investing is demanding recently and how the government operates ESG policies in terms of investment incentive.

Since benchmarking to the established enterprises which already have ESG management policies would be regarded as an efficient way to implement ESG management strategy for start-ups, as a final stage, the empirical case analysis shall be conducted to obtain a comprehensive understanding that how they perform sustainable business activities. The case analysis can illustrate that which components are linked with successful impact investing attraction in implementing sustainable business activities, ESG management. This will suggest as the conclusion how start-ups have a practical resolution in the introduction of ESG management strategy to have an advantage for impact investing attraction.

II. Literature Review

1. ESG, what stands for and how to interpret it

(1) Concept and definition

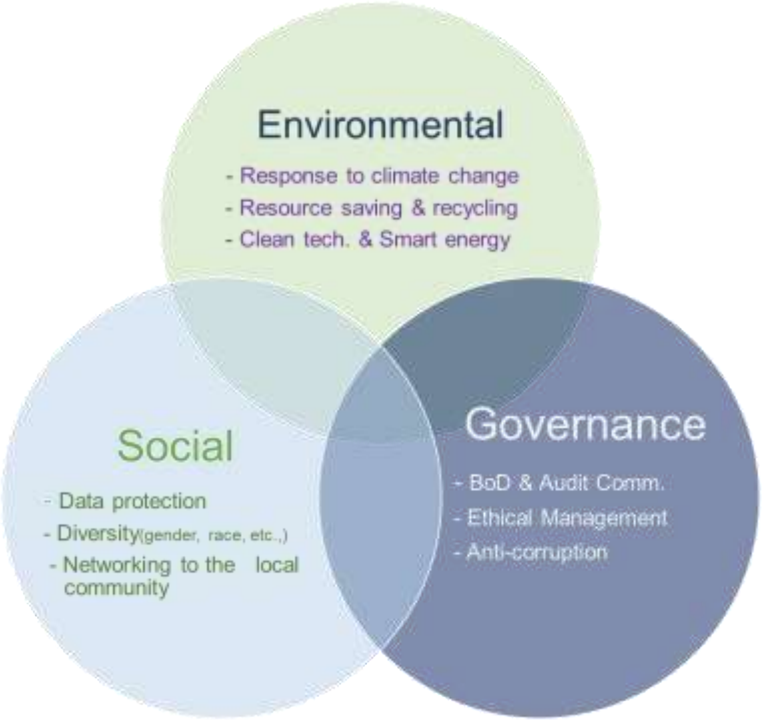
ESG is a combination of the first letters of Environmental, Social, and Governance. Here, Environmental means a company's eco-friendly management, Social means corporate social responsibility, and Governance means a transparent corporate governance structure. From a company's point of view, the actual meaning of ESG's impact on the company will be more important than the intuitive meaning of ESG. ESG is the three key factors for a company to achieve a 'sustainable' business, and it can be defined as a non-financial indicator that has a huge impact on a company's mid- to long-term corporate value, even if it is not directly shown in the financial statements. In summary, ESG is a combination of the words environment, society, and governance, but the hidden keywords are corporate sustainability, corporate value, and non-financial performance indicators.

As shown in the term 'sustainability' closely related to ESG, ESG has a mid- to long-term effect on corporate value. However, its importance cannot be less than short-term financial performance. Under the global paradigm shift that will change in the direction of emphasizing environmental and social values, ESG will be positioned as a core value directly linked to the long-term survival and prosperity of a company.

When looking at ESG into three sub-elements: environment, society, and governance, the most important issues in the environment are issues related to climate change and carbon emissions. For the sustainability and survival of mankind around the world, companies are facing a situation in which they have to drastically reduce carbon emissions and pursue carbon zero further. At the same time, resource and waste management to reduce environmental pollution, and energy efficiency that consumes less energy and resources are also emerging as important issues.

From a social point of view, companies should strive to ensure human rights and data protection, consider diversity, and build partnerships with supply chains and communities. Lastly, in terms of governance, it is necessary to establish a transparent and reliable board of directors and an audit committee to support the realization of these environmental and social values. In addition, high corporate governance values can be secured by preventing bribery or corruption and complying with corporate ethics in lobbying and political donations.

<Figure 1. Non-financial indicators impacting mid to long-term corporate values>



[Source: 김재필(2021), ESG 혁명이 온다.]

(2) Background of ESG management and its progress of development

ESG has emerged as a big topic in corporate management around 2020, but in fact, ESG is not a concept that suddenly appeared one day. In order to understand ESG accurately, it is necessary to start with the more fundamental concept of sustainable development and look at the historical flow of ESG as an indicator that affects corporate value

Sustainable development appeared on the global agenda in 1987 in a report called ‘Our Common Future’ jointly adopted by the United Nations Environment Program (UNEP) and the World Commission on Environment and Development (WCED). This report, also known as the Brundtland Report, defines sustainable development as ‘development that can be sustained to meet the needs of the present without compromising the resources and potential of future generations’. There was an argument that a paradigm shift toward sustainable development was necessary for humankind to develop the economy without facing catastrophes or catastrophes in the future, as humanity faces crises such as poverty, population growth, global warming, climate change, and environmental destruction.

Afterwards, the United Nations Environment Program adopted the 'Rio Declaration' at the 1992 Rio Conference in Brazil. At this Rio conference, the world's three major environmental conventions, the UN Framework Convention on Climate Change(UNFCCC), the Convention on Biological Diversity(CBD), and the United Nations Convention to Combat Desertification(UNCCD) will be newly created.

In 1997, the Global Reporting Initiative (GRI), a non-profit organization, was established to provide guidelines for sustainability reports published by companies and institutions. Following the publication of the first guidelines in 2000, GRI established GRI Standards in 2016 after several revisions. The GRI standard presents indicators for evaluating the sustainability of companies and institutions by dividing them into economic, environmental, and social sectors.

In 2006, the UN PRI (Principles for Responsible Investment), the starting point for current ESG investment, was formed. UN PRI has announced the principle that issues related to environment, society and governance should be considered in investment policy establishment, decision-making, and asset management. As of the end of March 2020, the investment institutions and 3,038 investors around the world were enrolled as the members of the UN PRI, including the National Pension Service in Korea. In that the UN PRI emphasized ESG as a financial investment principle, this can be regarded that the principle presented the cornerstone of the ESG framework that is currently emphasized in corporate management.

Another important ESG-related event is the Financial Disclosure Recommendation presented by the Task Force on Climate-related Financial Disclosures (TCFD) in 2017. TCFD is a consultative body established by the Financial Stability Committee, an international organization that monitors global financial markets. TCFD analyzed climate change-related risks and opportunities, and presented recommendations for financial disclosure in four aspects: Governance, Strategy, Risk management, and Metrics and Targets.

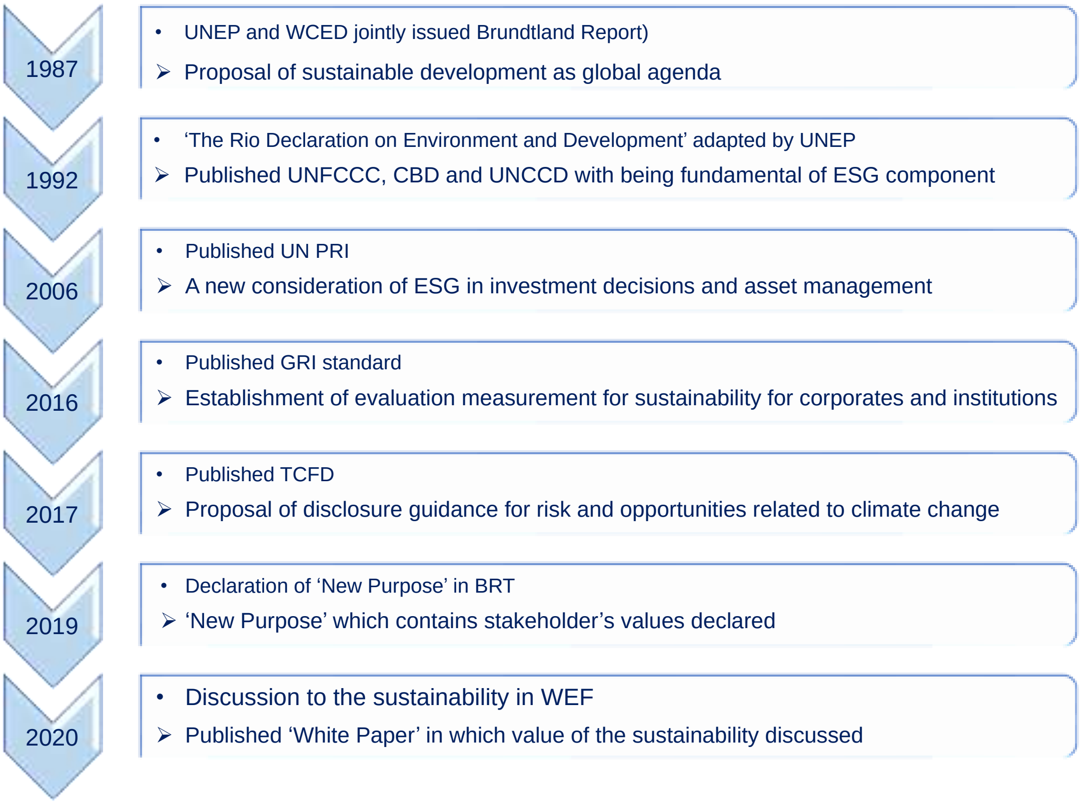
And the event that can be seen as a full-fledged opportunity to ignite the recent corporate ESG management discussion is the BRT (Business Roundtable) declaration in 2019. BRT is an annual conference attended by the CEOs of some of America's most influential companies, such as Apple, Amazon, Walmart, and BlackRock. At the annual meeting held in 2019, global business leaders declared a new corporate purpose (Purpose of a Corporation) that abolished the principle of maximizing shareholder profits, the traditional purpose of a company, and integrating the values of all stakeholders.

The declaration, signed by 181 global corporate CEOs, states that companies that previously put shareholders first must now consider the value of all stakeholders, including shareholders, customers, employees, partners, and local communities.

In an annual letter to global CEOs in January 2020, Larry Pink CEO of BlackRock, the world's largest asset manager, who also participated in the actual BRT declaration, said that climate change risk and ESG will be considered key factors in investment decisions.

At the World Economic Forum (WEF) held in Davos, Switzerland, in January 2020, sustainability and stakeholder were the key topics, followed in September with the title of 'Measuring Stakeholder Capitalism'. A measurement guideline white paper has been published. This report was prepared with the participation of global Big 4 accounting firms, and indicators for measuring sustainability were presented with the four pillars of governance, earth, people, and prosperity.

<Figure 2. History of ESG development with main global events>



[Source: Samjong KPMG ERI]

Taken together, ESG started with the sustainable development mentioned in the Brundtland Report published in 1987 and was embodied through the UN PRI in 2006. In addition, as stakeholder capitalism was emphasized at the BRT Declaration in 2019 and the World Economic Forum in 2020, ESG has emerged as a key topic in corporate management.

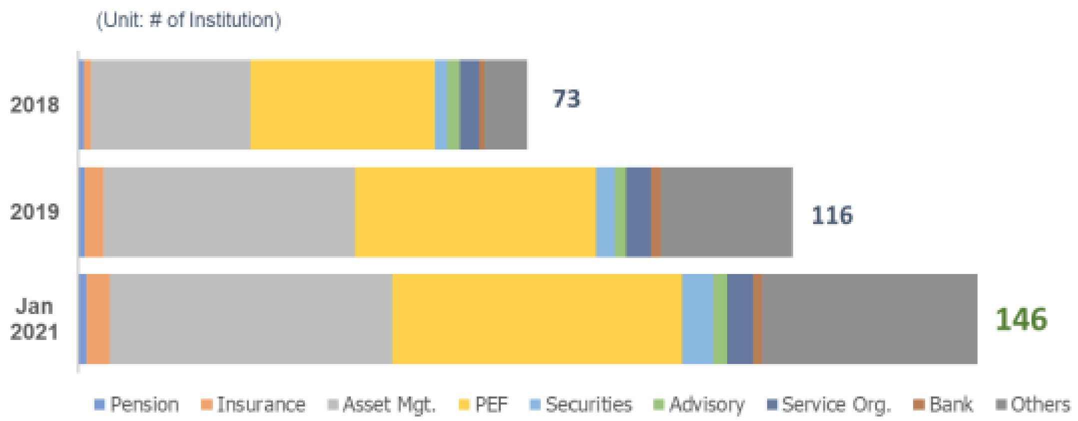
2. The reason of ESG emerging with notable importance these days

(1) Strong demand driven by Investors for Enterprises

A company's ESG activity is an issue that involves not only the company but also various stakeholders surrounding the company. In the midst of the climate change crisis and the COVID-19 pandemic, key stakeholders of companies, such as investors, customers, rating agencies, and the government, are strongly demanding that companies have a high-level ESG management system.

The most representative system as investors' request for ESG is the Stewardship Code. The stewardship code means that institutional investors are involved in corporate management by exercising their voting rights. In the past, institutional investors did not actively participate in corporate management due to cost burden or conflicts of interest between the investee company and the asset management. However, after the global financial crisis of 2008, institutional investors as shareholders voiced their own voices that they could not check corporate governance, and in 2010, the first stewardship code was introduced in the UK. In Korea, the system was established in 2016, and the national pension system was introduced in 2018. Since then, the adoption of stewardship codes by institutional investors such as insurance companies and asset management companies has continued to increase, which means that the role of institutional investors in corporate governance is gradually growing.

<Figure 3. Status of introduction of Stewardship Code in Korea>

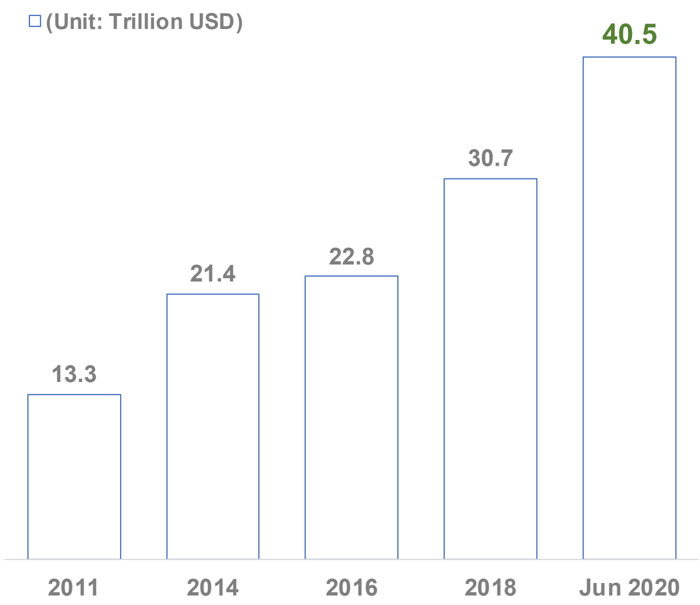


[Source: KOREA CORPORATE GOVERNANCE SERVICE]

In fact, overseas, the number of cases in which institutional investors directly exercise their voting rights on companies that are not good at ESG management is increasing. For example, BlackRock voted against the reappointment of two directors at the 2020 ExxonMobil Shareholders' Meeting on the grounds that it was insufficient to establish a climate change response strategy and disclose the financial impact of climate change. In addition, BlackRock judged that this lack of ESG risk management was due to the lack of independence of the board, and voted in favor of separating the CEO and the chairman of the board of directors. In addition to ExxonMobil, BlackRock has exercised its voting rights over 35 other companies including Volvo on the grounds of insufficient environmental pollution improvement.

Meanwhile, investors are actively using ESG not only to exercise their voting rights on investment companies but also to set investment targets. Every year, the amount of investment that institutional investors make in consideration of ESG continues to increase. It is estimated to be worth 40.5 trillion dollars as of June 2020. Negative screening is one of the most important strategies that institutional investors consider when making ESG investments. Negative screening is to exclude companies with insufficient ESG activities, such as making profits from tobacco or weapons manufacturing, from investment portfolios or fund composition. And recently, the proportion of ESG integration strategy has been increasing in investment. ESG integration strategy is a method of systematically and explicitly integrating ESG factors into the financial analysis process itself for investment decision making.

<Figure 4. The volume of global investments relevant to ESG>



[Source: Global Sustainable Investment Alliance]

Looking at the case of applying ESG factors to investment decision making, the Dutch Pension Fund excluded 159 companies, including Airbus and Philip Morris, from investing for reasons such as arms manufacturing and tobacco sales, and the Norwegian Bank Investment Management Association (NBIM), in this case, investment in Duke Energy and Coal India was excluded due to environmental destruction. Vanguard, the world's three largest asset management company, also sold shares of China Mobile, China Unicom, and China Telecom to ban investment in Chinese military-related companies.

(2) Strong demand driven by Customers for Enterprises

Global companies are showing a move not to do business with suppliers with insufficient ESG management. In a divided supply chain structure, companies that are passive on ESG may lose their customer base in the future. Supply chain management against ESG has also emerged as a social debate, and the representative case of cobalt mineral is exemplified.

Apple, Google, Microsoft, and Tesla are currently under the spotlight as the most promising companies in the world as the era of the 4th industrial revolution arrives. A total of five companies, including those companies, plus computer maker Dell, were sued by the International Human Rights Association for the cobalt issue in 2019.

Not only is cobalt used in electric vehicle batteries, but it is also widely used in smartphone batteries and various electronic devices. However, a significant amount of cobalt, a key raw material for this battery, is produced in Congo, and many young children in Congo are forced to work in the labor force from an early age to produce cobalt. With the rise of ESG, this supply chain structure is starting to put a brake on it. As a result, Tesla announced a “cobalt-free” plan that would eliminate the use of cobalt. To this end, they are get developing a battery containing 100% nickel, and announced that strive to improve the human rights of workers in the supply chain and the working environment.

In the case of Apple, it has started to manage ESG-based supply chains in earnest. According to the Supplier Clean Energy Program, by 2030, Apple's suppliers must supply products made with 100% renewable energy. In addition, Apple has established the Apple Supplier Code of Conduct on labor rights, human rights, health, and environmental protection for suppliers at all stages of the supply chain, and evaluates them to induce suppliers to improve their ESG performance. Another example of BASF, the world's No. 1 chemical company, not only the company itself, but also its ESG Code of Conduct is translated into 12 languages and provided to its suppliers, making it mandatory for suppliers to comply with international labor and safety standards.

Supply chain management that reflects ESG is also seeing a movement toward legalization, mainly in Europe. The EU is currently considering introducing a measure to make human rights and environmental due diligence on the supply chain of companies compulsory across industries. There is also concern that new trade barriers may be created in effect, including not only companies located in the EU, but also companies transacting in the EU market. In February 2021, the EU proposed a bill to make supply chain due diligence mandatory, and if passed, it will take effect from 2022, so Korean companies need to prepare for it.

Meanwhile, consumers' demand for ESG-friendly corporate products is increasing. According to the survey results of the Korea Chamber of Commerce in 2021, 63.0% of consumers answered that ‘the company’s ESG activities are considered when purchasing products’. 70.3% of the respondents answered that they had never intentionally purchased products from companies that had negative ESG activities. 88.3% of the respondents answered, “Even if I pay an additional price, I will purchase products from companies with excellent ESG activities” was very high.

(3) Consideration of ESG related business activities in the rating of credit status for Enterprises

Global credit rating agencies such as Moody's, Fitch Ratings, and Standard & Poor's (S&P) reflect ESG evaluation results in their credit ratings. In the case of S&P Global, credit ratings were adjusted for companies that fell under the reason for adjustment by classifying them into environmental pollution, carbon emissions, safety and health, internal control, and risk management.

For example, in the case of Duke Energy, considering that coal ash was excessively emitted from coal power plants, the credit rating was adjusted from 'A-Stable' to 'A-Negative' to inform the credit risk due to ESG. Credit rating agencies are acquiring ESG rating agencies with expertise to strengthen their ESG expertise.

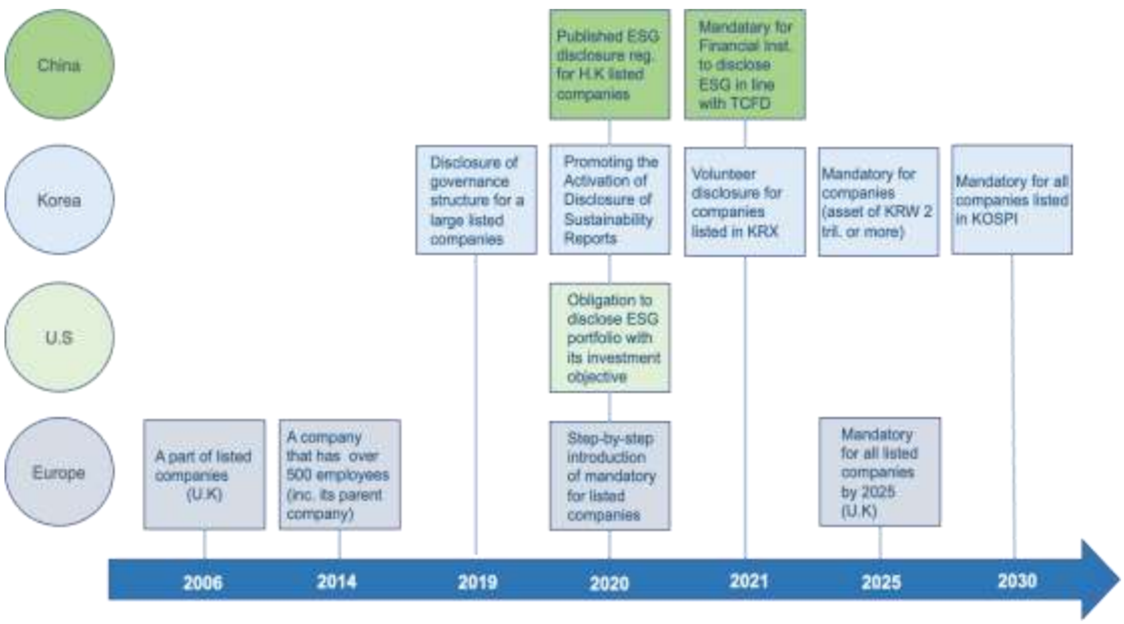
Global cases involving non-financial performance in credit ratings are also affecting domestic credit rating agencies. In October 2020, Korea Investors Service(KIS) introduced the ESG bond certification evaluation business for the first time. Based on its own ESG finance evaluation methodology, KIS evaluated the 59th publicly offered bonds (sustainable bonds) issued by Korea Midland Power, which reflected the issuer's sustainability management and the company's commitment to mitigating and responding to climate change. This social trend suggests that ESG management of companies can affect not only financial risk but also credit risk.

(4) Strengthen to ESG relevant regulations by government

In Europe, when the UN PRI announced the ESG investment principle in 2006, the disclosure of non-financial factors of companies was promoted in earnest. Starting with pension funds for Europe in March 2021, ESG related disclosure obligations have been expanded to banks, insurance and asset management companies, and the UK is planning to make ESG information disclosure mandatory for all listed companies by 2025.

In the case of Korea, it has already been stipulated that, from 2019, it is mandatory to disclose core corporate governance information to investors, mainly for companies listed on the KOSPI with total assets of KRW 2 trillion or more. In addition to that, in January 2021, the Financial Services Commission announced that it would push for a phased mandatory ESG disclosure. It will be applied to the listed companies in KOSPI, which have the asset KRW 2 trillion or more from 2025, and all companies listed in KOSPI shall be mandatory for ESG disclosure with sustainability reports from 2030.

<Figure 5. The development of regulations for ESG disclosure requirement>



[Source: Samjong KPMG ERI]

Another representative regulation related to ESG is carbon regulation related to climate change. The Paris Agreement of 2015 set a long-term goal for all countries to keep the global average temperature rise below 2°C below pre-industrial levels, which required that implementation be checked every five years.

In the case of the EU, which declared carbon neutrality in 2050, one of the most controversial environmental regulations is the carbon border tax. The carbon border tax is a system in which the EU imposes tariffs on products from countries that emit more carbon than their own. The EU has already prepared the basis for a bill related to the carbon border tax in 2018, and plans to introduce it in earnest in 2023. It started in the EU, but the carbon border tax is spreading around the world with the seriousness of the climate crisis. President Biden also promised to introduce a carbon border tax, which is expected to change the world trade flow.

China, the world's largest carbon emitter, is also tightening regulations to reduce carbon emissions. Furthermore, companies with high carbon emissions are required to fill out a carbon emission report, and fines ranging from CNY10,000 to CNY30,000 are imposed for violations. Korea has also declared carbon neutral by 2050 and has raised its greenhouse gas reduction target, so environmental regulations on companies are expected to be strengthened in the future.

<Table 1. The Carbon Neutral target and Core Policies for major economic powers>

Country	EU	U.S	China	Korea
Target	2050 Carbon Neutral (Declared Dec 2019)	2050 Net Zero (Declared Jul 2020)	2060 Carbon Neutral (Declared Sep 2020)	2050 Carbon Neutral (Declared Oct 2020)
Core Policies	• The reduction target for GHG raised to 55% from 40% by 2030 • Planning to publish a draft of Carbon Border Tax in July 2021 • Fundraising with the amount of EUR 1 trillion as a minimum within the next 10 years - Investment execution for EUR 100 bn as an annual average	• Biden Admin. accelerating Green Policies - USD 2 trillion investment over 4 years in energy transition and infrastructures responded to climate change - Zero carbon emission by 2035 in the electric power sector - Fostering the eco-friendly car industry and strengthening fuel economy regulations with the benchmarking regulations under the State of California - Leading international cooperation on climate change (rejoining Paris Agreement)	• Implementation plan included in the 14th 5-year (2021- 2025) plan - Strengthening the driving force of existing eco-friendly industrial policies - Accelerating Green Growth through Green Transformation of major industries - Specification to the carbon reduction plan and introduction of the nationwide carbon trading market - Exceeding proportion of electronic vehicle over fossil fuel vehicles by 2037	• Transition from adaptive reduction to proactive reduction • Incorporation of 3 major policies(10 tasks) - Promoting GHG reduction to the level of 2030 countries by 2025 - Transition to low carbon economy system - Cultivating low carbon industrial ecosystem - Shifting business process to carbon neutral

[Source: Korea Institute for International Economic Policy]

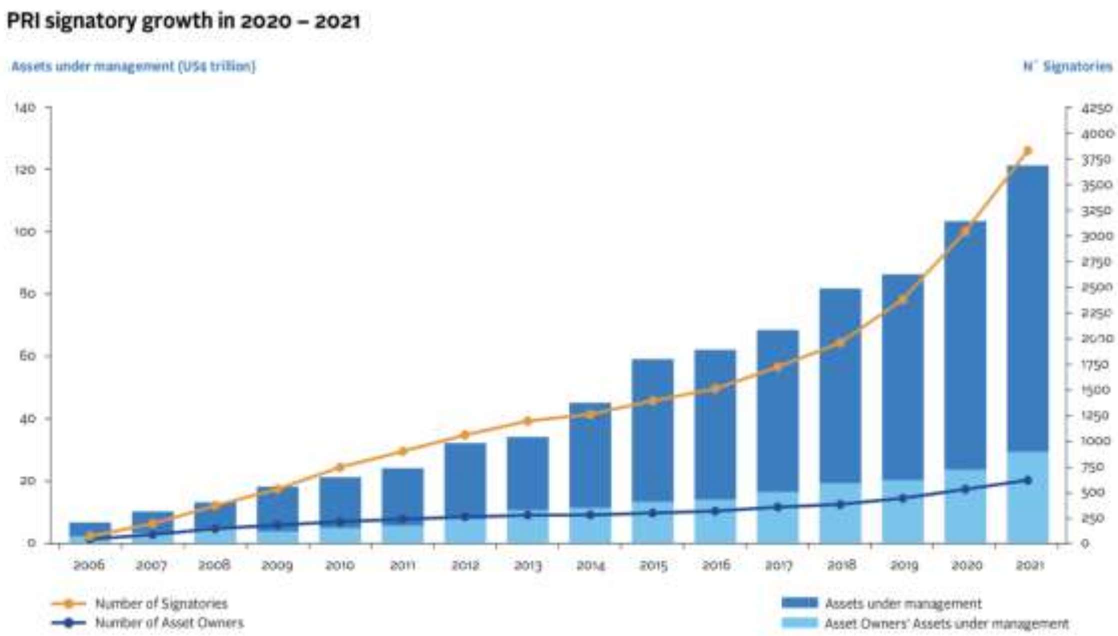
3. The recent change of investment demands to impact investing

(1) ESG Investment Trend

ESG is a concept derived from Socially Responsible Investing, which has historically been a part of ethical investment activity that has existed for a long time. The PRI(Principles for Responsible Investment) was launched in 2006 as an international investor network supported by the United Nations. As the name suggests, it is an association of investors and financial institutions that have signed to abide by the 'Principles for Responsible Investment'. The number of signatories has steadily increased since the establishment of the PRI, and as of the end of March 2020, 3,038 institutions with a total of US$103 trillion are participating as signatories.

Not all assets managed by PRI signatories can be considered ESG investment assets, and signature does not imply practice. However, the fact that signatories have steadily increased over the past 15 years suggests that ESG investment assets have also increased as they are demanding that signatories actively reflect ESG issues promised in their investments. The number of PRI signatories and total assets under management recorded particularly rapid growth in 2020, as did ESG investments.

<Figure 6.The trend of PRI signatory and relevant investment volume>



[Source: UN Principle for Responsible Investment]

According to the Global Sustainable Investment Alliance (GSIA), assets that incorporate ESG data into their investments totaled $40.5 trillion in June 2020. That's an increase of over 30 percent in 18 months from $30.7 trillion at the end of 2018. In 2021, Bloomberg predicts that ESG investment assets will exceed $53 trillion by 2025, accounting for more than a third of the total capital market of $140.5 trillion.

It cannot be pointed out as one reason why the slope of growth has steepened from 2020. Sustainable investment that considers ESG is known to show relatively stable performance, especially in times of recession or high volatility. This phenomenon was evident even in the first half of 2020, when the stock market was shaken by COVID-19, and it is widely believed that it sparked the expansion of ESG investment.

(2) Impact investing is connected to ESG

There are many voices who are concerned that the sudden growth of ESG investment will cause side effects. The biggest worry is that the standard of ESG performance will eventually be lowered, and the company or asset selected for ESG investment may not show any substantial difference from other assets. In fact, in an interview with Bloomberg in February 2021, Jordan Waldrep, chief investment officer of US ETF manager TrueMark Investment, analyzed companies invested by the largest ESG ETF fund, worth $14 billion. As a result, over the past year, these companies have reduced their greenhouse gas densities by 25 percent. Although it is a pretty good performance, it is said that the reduction rate of greenhouse gas density of the S&P 500 is 36 percent, except for 55 companies included in the S&P 500 with the most severe greenhouse gas emissions during the same period. This means that the greenhouse gas emission levels of companies holding stocks in the most popular ESG ETFs are not significantly different from those of most companies in the S&P 500.

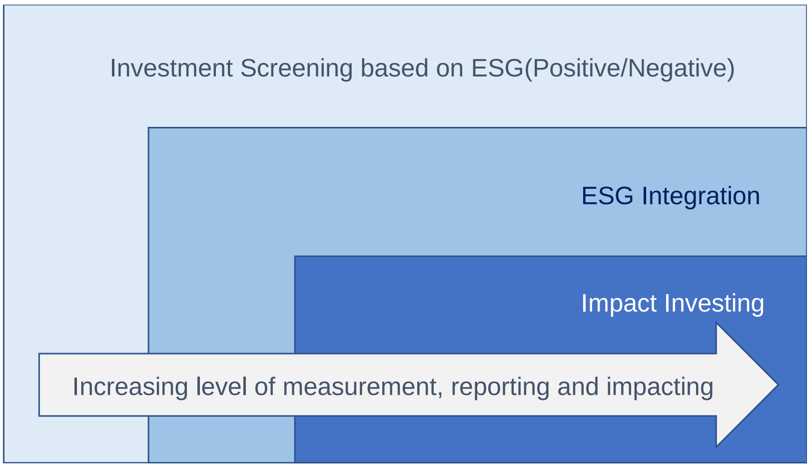
Given the reality, it's not that surprising. In terms of ESG, the growth of excellent companies is inevitably slower than the increase in capital flowing to ESG investment. Capital is easy to move from one side to another, but changes in companies involving people, physical goods and businesses are not so quick and easy. As ESG investment in listed stocks is growing rapidly, it is a reality that investment is made in a way that evaluates the relative excellence of companies. If it is a large company that is already large enough to take care of the overall aspect and has no direct negative elements in its business content, it will naturally receive a high score in the ESG evaluation and be chosen by ESG investors. But this won't last long, and in the end two questions will become important.

First, what is the point of differentiation among ESG investors? Those who entrust ESG investment assets will also want to differentiate, whether it is a good ESG investment or a poor ESG investment rather than whether it is ESG investment or not, as the ESG market grows. Second, from the company's point of view, how can ESG be used as an element of 'strategic orientation' rather than an object of 'management'? In particular, ESG investors will be asking companies a second question to answer the first question.

ESG investment is divided according to its intensity and method. In terms of ESG, it is possible to distinguish from a loose type of excluding companies with negative performance (negative screening) or screening companies with positive performance (positive screening) to a type of making a total judgment by combining ESG factors in an investment strategy (ESG Integration)

Among them, impact investing is the most active form of ESG investment, and it invests in areas that directly solve environmental and social problems through business. Seizing market opportunities through a lens that looks at the environment and society, and leading better decision-making in terms of diversity and inclusion, is the underlying philosophy and strategy itself of impact investing. As the saying goes that offense is the best defense, the one that makes ESG an opportunity, not a cost, will ultimately win the game. The approach of impact investing can be one way.

<Figure7. Conceptual structure for impact investing>



[Source: World Economic Forum]

4. A comprehensive understanding of impact investing in terms of investment attraction

(1) How does the investment market interpret the impact investing?

The major context of the recent global investment flow will be an investment flow that considers not only financial returns but also the social and environmental consequences of investment. In general, the terms Socially Responsible Investment, Sustainable Investment, or Impact Investing are used broadly to refer to an investment form that can have a positive impact on the human community. Among them, the term frequently used by investment institutions such as banks, institutions, foundations, and funds for the past 10 years can be called 'Impact Investing'.'

Impact investing, as defined by the Global Impact Investing Network (GIIN) in 2009, "are investments made into companies, organizations and funds with the intention to generate measurable social and environmental impact alongside a financial return." This definition of impact investing will be compared with socially responsible investment or sustainable investment, and the background of the use of the term impact investing will be reviewed.

According to Brian Treistad, until the mid-1900s, capital had two major characteristics: fiduciary duty and philanthropy. The trust obligation refers to the obligation of the trustee to invest in a way that maximizes profits when a large amount of capital is entrusted to a bank or asset management institution, or the obligation of a company to maximize profits for shareholders when conducting business activities. At this time, investors or companies did not take into account the social or environmental impact of investment. In contrast, philanthropy has invested with only social and environmental benefits in mind.

Corporate activities with only trust obligations were developed in the direction of maximal profit without considering the possible consequences for society and the environment. However, with the start of the American human rights movement Civil Rights in the late 1940s, changes occurred in government and business activities. At that time, the work environment improvement, racial discrimination, women's rights, consumer environment movement, anti-war movement, and feminist movement that targeted changes in the government and corporations began. In the 1960s, the term Corporate Social Responsibility was coined to represent this movement.

In the context of the rise of corporate social and environmental responsibility, in 1982, John Bavaria first established Franklin Research & Development, a wealth management company focusing on investment in screening 'unethical' industries while considering social and environmental values. The company is currently being renamed Trillium Investment, a wealth management company focusing on socially responsible investment in the United States. From this point on, the term Social Responsible Investment began to appear. At the time, the term meant investment in a way that screened out relatively unethical industries that were judged to be harmful to society and the environment. Industries that included tobacco, alcohol, gambling, weapons, pornography, and animal testing were cited as the targets to avoid. However, today, socially responsible investment is being used as a term that includes this sort of investment and even demanding stronger social and environmental responsibility from companies using proxy voting.

Socially responsible investment began as a way of reducing investments that were harmful to society and environment while fully fulfilling the fiduciary duty of the capital trustee. But program-related investment was born at the end of another capital spectrum: philanthropy. In the 1960s, the Ford Foundation first used the terms "Social Investing" and program-related investment. The Ford Foundation used the foundation's donations to invest only in areas consistent with the foundation's mission. The Ford Foundation said that instead of only making one-sided donations (money that is not returned immediately after donation), the Ford Foundation would be able to generate profits by lending a portion of the donation in the form of a loan to a business that can provide social impact. It started with business theory.

The Gates Foundation, run by Bill Gates and Melinda Gates, is also famous for engaging in various activities through program-related investment. Among program-related investments, investment in vaccine development is a representative example. The Gates Foundation has so far invested approximately $52 million in companies such as CureVac, Alere and Zyomyx. Their goal is to protect children's lives from diseases such as malaria and polio, which kill so many children in poor communities, and to make vaccinations affordable for more people. The Gates Foundation is making program-related investments in these companies through equity investment.

The forerunners who started program-related investment in the 1970s and 1980s became the mother of today's so-called 'impact-first investing'. What started in Baltimore as a home building project so that anyone can afford their own home at a low price, regardless of income level, is now an Enterprise that provides financial resources to purchase such a home across the United States. Microfinance companies like Grameen Bank and Accion, which offer unsecured loans at low interest rates to disadvantaged women and small business owners, are all impact-first investment models. All of these started in the form of 'donations' to the poor and needy at first, but gradually 'donation' and 'program-related investment' were carried out in parallel, turning into an investment

In the 1990s and 2000s, a new concept of investment term beyond socially responsible investment began to appear. That's what sustainable investing is. Representatives include David Blood, co-founder of Goldman Sachs Wealth Management, and Al Gore, former Vice President of the United States. They established Generation Investment Management, saying that investment should include things that can bring social and environmental benefits in addition to filtering out unethical things. Making money by investing and actually creating positive social and environmental values is the start of sustainable investment.

In the 2000s, impact investing was born from the range between sustainable investment and program-related investment. Impact investors believe that impact investing is investing in the business model itself to solve social and environmental problems, thereby obtaining a financial return in line with market prices and producing a measurable impact on those problems. And the name and concept of impact investment was established more concretely at the 2007 Bellagio Summit held by the Rockefeller Foundation, inviting investment experts who are participating in various sustainable investments. At this time, the name “Impact Investing” was newly created and has been widely used until now.

As such, ‘Impact Investing’ is an investment concept defined for the purpose of making society a better place by crossing the extreme spectrum of fiduciary duty and charity. In the term impact investing, Corporate Social Responsibility, Socially Responsible Investment, Program-related Investment, Social Investing, and Sustainable Investment are all included. It can be seen as an inclusive concept.

(2) What is the primary objective of impact investing?

Can impact investing raise market rate returns? In other words, while pursuing an impact, the question ‘Can the market achieve the same level of return as ordinary investors? As the word impact investing was coined and a series of investment activities that consider the impact on society and the environment were collectively referred to as impact investing, this question has been a topic of constant debate. Indeed, when it comes to impact investing, many in the financial industry have long debated whether there is an inevitable trade-off between social impact and return.

Does an impact-seeking investment mean that you can tolerate a low rate of return, and that you are prepared to lose your principal? Even people who work in the field of impact investing have different opinions on this question because they have different ideas about impact investing. As the amount of capital flowing under the name of impact investing increases and the forms of impact investing become more diverse, it is rather difficult to come up with a single answer to this question. When defining impact investing as “(1) recovering capital, further increasing profits, and (2) making a positive impact on society at the same time”, this definition only states the purpose of impact investing. It does not prescribe a methodology to achieve this, or even a priority between (1) and (2). So, impact investing is a very loose and broad concept.

Therefore, when talking about impact investing, one might think of providing low-interest loans for rental housing construction in low-income areas, or seed funding for start-ups developing technologies to solve Africa's water scarcity problem. Providing micro financing to female heads of household in underdeveloped countries can be a form of impact investing, and investing in start-ups in developed countries with excellent technology to respond to climate change is also included in the scope of impact investing. So, depending on which type of asset you invest in, with which approach and priority, there may or may not be a trade-off between return and impact.

"There is a widespread misconception that impact investing is a single type of investment rather than a comprehensive approach," said Jed Emerson, director of impact investing. He argued that it should be thought of as a lens that can be applied to the entire portfolio, not as an investment strategy. In a nutshell, this means investments in all asset classes from the perspective of impact investing shall be reviewed, and based on that, strategies and approaches might be adjusted. This holistic view of impact investing is what Jed Emerson calls "Total Portfolio Management" of impact investing. The impact investing is an approach that can be applied to both cash-based investments, where securing liquidity is the first condition, and venture capital investments, which are premised on high returns and high risks. According to this view, various impact investment options already exist by asset class and impact type. For example, if you are looking for a deposit product, choose a community-friendly institution such as a credit union rather than a general commercial bank, or choose a green bond or ESG bond if you are looking for a bond product. In the stock market, you can directly select a company that conducts eco-friendly businesses, or you can make indirect investment through a climate change-themed fund.

The view of composing the entire investment portfolio in consideration of impact has been discussed since the late 2000s and is gaining strength. An example of this trend is the 100% Impact Network, led by Toniic, a community of impact investors. The 100% Impact Network is a network of investors who have pledged to invest 100% of their investment portfolio in a place that has a positive impact on society and the environment. Investors in this network are called 100%ers, who share portfolio composition with network members and discuss investment strategies and approaches together. As of 2021, 100% Impact Network members have pledged to make up a total of approximately $6 billion in their impact investment portfolio, of which $2 billion has already been invested in accordance with that commitment.

In discussing the issue of trade-offs with respect to impact investing as a whole, there are many different types of impact investors, each with different types of impact and return goals. It seems that attention is focused on whether impact investing can produce returns above the market level, but the reality is different. Two-thirds of impact investors seek more than market returns, just like the average investor. The remaining one-third set their target return below the market level from the outset. Investors who believe that there is an impact that must be pursued, even at the expense of return, would fall into this category. They do things that money cannot count, where there is no direct market for government and the public sector to reach. The reason we call these kinds of things that might deserve the name of donations or support is that we call them investments because they don't just give money to get things done. They try to make a profit even below the market level, and to get back the capital they provided, even after a long time. And this effort gives thoroughness in the pursuit of impact and leads to sustainability where money is invested.

5. The ESG activities for Investment Attraction, from Impact Investing

(1) The new paradigm of business activities performed by enterprises

What if the ESG is not prudently considered in corporate management without fulfilling various stakeholders' needs? This will act as a significant risk to the maintenance of the company's corporate value and business continuity. Conversely, in the case of a company that reflects the needs of stakeholders for ESG well, it will not only increase customers' interest in products and services, but also increase investment and reduce capital funding costs, which will lead to an increase in corporate value. This is the new management paradigm that is currently underway. Thus, ESG management strategy which includes not financial performance only but non-financial performance will lead the company to move toward maximizing corporate value.

To date, companies have been conducting two major business activities from a financial point of view to enhance their corporate value. The first business activity is to establish a business strategy. They have been maximizing sales and profits through technological innovation, product and service innovation, strengthening organizational capabilities, and investments. The second is to disclose the management performance of these management strategy activities to the capital market through financial statements.

ESG can also be divided into two business activities. First, it establishes a management strategy from an ESG point of view, and second, communicates ESG performance with market stakeholders through the disclosure of sustainability reports. In the end, a company must develop a balance between non-financial (ESG) management activities as well as existing financial management activities to increase corporate value and become sustainable.

(2) The necessity of ESG management strategy and its detailed tasks

ESG management can be divided into 'ESG management strategy' and 'ESG information disclosure', and it is a concept that enhances corporate value through these ESG management activities. Consequently, what is ESG management strategy? Many business leaders now agree that an ESG management strategy is necessary. However, if you are asked what an ESG strategy is, it will often be difficult to answer. ESG management strategy means setting the company's vision and goals from the ESG point of view, establishing strategies, tasks, and execution systems to achieve these goals and consistently implementing them. Most of the companies have a management system such as vision, goals, mission, and strategy. It is necessary to redesign this for ESG.

As a task for implementing a management strategy to achieve the ESG goal, there can be various considerations depending on the circumstances of each company. In addition, there would be consideration of an ESG themed M&A, or driving business innovation by combining new technologies with ESG. For example, Google is working on a new and renewable energy business model that maximizes the use of clean energy by applying AI(Artificial Intelligence) technology, while Apple is developing a circular economy model that uses robots to disassemble and recycle iPhones. Lastly, how to carry out sustainability management reporting is an important task for companies to implement ESG management strategies.

(3) Disclosure of ESG business activities and its guideline

Then, what is ESG information disclosure, which is another axis of ESG management activities? ESG information disclosure is a concept that effectively reflects a company's ESG information in the 'Sustainability Report' from the investor's point of view and discloses it to the capital market. In detail, the impact of ESG risks facing the company on corporate value should be analyzed, and countermeasures should be reflected in the 'Sustainability Report' and disclosed. In the future, more and more investors will make investment decisions by referring to the company's 'Sustainability Report' that reflects ESG information.

The sustainability reporting rate of global leading companies is continuously increasing. According to the survey of 2020 global company's 'Sustainability Reporting' conducted by KPMG, it is found that 96% of the top 250 companies by revenue among Fortune 500 companies and 80% of the top 100 companies by revenue in 52 countries (5,200 companies) are preparing a sustainability report.

Meanwhile, among the surveyed companies, the number of cases where the contents of the sustainability report are certified by a third party is increasing every year. Of course, this applies to global leading companies or top-grossing companies in each country, and there are far more companies that have not yet prepared a sustainability report. However, in the future, due to the demands of various stakeholders, not only large enterprises but also more small and medium-sized enterprises will have to prepare sustainability reports.

Consequently, what standards should be applied in preparing companies' sustainability reports?
For the publication of a sustainability report, there is a discussion about developing common indicators, but there is still no unified standard using in worldwide. It would be exampled that GRI Standards, SASB Standards, TCFD recommendations, IR Framework, ISO26000, and WEF's 'Common Indicators for Stakeholder Capitalism' can be cited as global guidelines that companies mainly refer to the preparation of sustainability reports. The 'ESG Information Disclosure Guidance' released by the Korea Exchange in 2021 also recommends using the indicators of commonly used global standards or initiatives.

A company does not refer to only one guideline when preparing a sustainability report. For example, TCFD and ISO require companies to disclose information in practical terms, such as the roles of the board of directors and management necessary for achieving sustainability, and risk management systems. On the other hand, GRI and SASB focus on guidelines for specific performance indicators used in the disclosure of sustainability reports. Therefore, the company's sustainability report is composed of guidelines for the implementation system and performance indicators.

<Table 2. Global guidelines for Sustainability Reporting>

Standard	Governing Agency	Main Contents
GRI Standards	Global Reporting Initiative, GRI	▪ Guidelines for the preparation of a sustainability report that reports the impact of a company on the economy, environment and society
SASB Standards	Sustainability Accounting Standard Board, SASB	▪ Separate reporting guidelines for 11 major industries as per Sustainable Industry Classification System(SICS)
WEF-IBC-MSC (Measuring Stakeholder Capitalism towards Common Metrics and Consistent Reporting of Sustainable Value Creation)	International Business Council(IBC) under World Economic Forum	▪ Composed to four areas: the principle of governance, the earth, people, and prosperity, and included 21 core indicators, together with 34 expansion indicators related to ESG.
TCFD Recommendation	Financial Stability Board Task Force on Climate-related Financial Disclosure, TCFD	▪ Indicators and targets for assessing climate change-related governance, strategy, risk management, and risks and opportunities
IR(Integrated Reporting) Framework	International Integrated Reporting Council, IIRC	▪ Integrated financial/non-financial disclosure (Disclose to external environments, business model, strategy and resource allocation as per IR framework)
ISO 26000	International Organization for Standardization, ISO	▪ Stipulating guidance on how businesses can fulfill companies' social responsibilities and improve communication; The core topics are organizational governance, human rights, labor practices, operation in a fair practices, consumer issues, and active participation in local communities.

[Source: 삼정KPMG(2021), ESG의 부상과 경영 패러다임의 변화]

In the past, sustainability reports focused on how the company's business model affects the environment and society, but recently, it is required to understand how the environmental and social impacts affect the company's financial performance. In other words, ESG information disclosure is gradually becoming more sophisticated in connection with the company's financial impact.

On the other hand, since the indicators presented by each global ESG information disclosure standard or initiative vary widely, some indicators may be detailed for a specific company or industry. Among the indicators presented by various information disclosure standards or initiatives, the key and common indicators presented by the Korea Exchange are as follow

<Table 3. Key indicators in the preparation of Sustainability Report>

Classification	Item	Indicator	Description
Organization	ESG Implementation	Management Role & Responsibility (R&R)	▪ Identification and control of ESG issues as management R&R
	ESG Evaluation	Risk & Opportunity relevant to ESG	▪ Evaluation of risk & opportunity relevant to ESG
	Stakeholders	Stakeholders' participation	▪ The participation method in the process of ESG management for stakeholders
Environment	Emission of Greenhouse gas	Direct emission	▪ Greenhouse gas emissions into the atmosphere from physical devices or factories owned and managed by the company
		Indirect emission	▪ Greenhouse gas emissions from electricity, air conditioning, heating and steam emissions purchased or acquired for company consumption
		Emission intensity	▪ Greenhouse gas emissions per metric unit by activity, production and other organization
	Energy Usage	Direct usage	▪ Energy consumption of entities owned or managed by the organization
		Indirect usage	▪ Energy consumption from outside the organization, including the use and disposal of products sold
		Energy usage intensity	▪ Energy consumption required per unit of activity, production and other metric by organization
	Water Usage	Total use of water	▪ Total use of water for organization
	Waste Discharge	Total amount of waste	▪ Total weight of waste by treatment method such as landfill, recycling, etc.
	Violation of laws and accidents	Violation of environmental laws and accidents	▪ Number of environmental law violation/environment-related accidents and actions taken
Society	Employee Status	Equality and diversity	▪ Status of employees by gender and employment type, number of cases of discrimination-related sanctions, and details of actions taken

		New hires and turnover	▪ Status of new hire and turnover
		Youth intern recruitment	▪ Recruitment status of youth interns and conversion rate to regular employees
		Parental leave	▪ Status of employees using parental leave
	Safety and Health	Industrial accident	▪ Number of occupational deaths, injuries, and diseases and details of actions taken
		Product safety	▪ Number of product recalls (collection, destruction, recall, corrective action, etc.)
		Denotement and advertisement	▪ Number of violations of denotement/advertisement regulations and actions taken
	Information Security	Private data protection	▪ Number of violations of private data protection and actions taken
	Fair Competition	Fair competition and abuse of market dominance	▪ Number of violations of laws and regulations related to insider transaction, subcontract transaction, franchise business, and agency transaction and details of actions taken

[Source: 삼정KPMG(2021), ESG의 부상, 기업은 무엇을 준비해야 하는가?]

III. Case Study

1. Zikooin Company

(1) Introduction of Zikooin Company

Zikooin Company is a food-tech start-up that develops, distributes, and sells plant-based meat. Founded in 2017, Zikooin Company has discovered the potential for grain-based plant-based meat production. As a result of repeated thousands of studies, in 2019, Zikooin Company finally developed and launched ‘UNLIMEAT’, an alternative meat with unrivaled technology and product power. The company is leading the domestic alternative meat market with excellent quality and differentiated product lineup, and are spreading the limitless possibilities of plant-based meat not only in Korea but also overseas.

The greenhouse gas emitted by the livestock industry is 7.1 billion tons (CO_{2e}) annually, accounting for about 15% of the total greenhouse gas anthropogenically emitted by mankind. Of the 7.1 billion tonnes, about 45% comes from the production or processing of feed for livestock, about 39% from the intestinal digestion of ruminants and about 10% from the use of fertilizers or manure. The remaining 6% comes from the processing and transport of meat products. Methane gas emitted during digestion by ruminants such as cattle and sheep, and nitrous oxide contained in excrement, create a much stronger greenhouse effect than carbon dioxide.

In addition, the livestock industry requires enormous amounts of water resources. According to the Water Footprint Network, it takes 15,415 liters of water to produce 1 kg of beef, compared to 322 liters and 1,644 liters of water used to obtain 1kg of vegetables and grains. As the Earth's natural carbon storage capacity weakens, the concentration of greenhouse gases in the atmosphere increases.

World meat production will reach 330 million tones in 20203. Annual per capita meat consumption is 34.5 kg, which jumps to 69.3 kg in OECD countries. High-density factory farming is a method introduced to produce more meat and faster. Factory farming not only raises concerns about animal welfare, it also raises the problem of increasing greenhouse gas emissions while maintaining high density of livestock. The abuse of antibiotics that accompany high-density livestock houses threatens the health of consumers, and the increasingly severe meat-centered diet is causing health and nutritional imbalances at the social level.

Considering the impact of the existing livestock industry on the environment and society, it is necessary to reduce excessive production and consumption of meat and promote decarbonization of the livestock industry through various technological developments and policy changes. Substitute meat has emerged as a representative solution to the environmental problems of the livestock industry. Technical basis such as plant-based meat that mimics the characteristics of meat with plant-based ingredients, cultivated/cell-based meat made by extracting and culturing animal cells, and synthetic fermentation of alternative food materials made through microorganisms also diversified. Substitute meat accounts for about 1% of the total meat market in 2020 but is projected to grow to 10% in 2025 and 60% of the total meat market by 2040. Fundamental changes in eating habits and consumption patterns are already taking place, centering on future generations who are sensitive to post-change issues. This is supported by market expectations of accelerated growth.

UNLIMEAT is a plant-based alternative meat brand that was born in Korea and is expanding into the global market. Zikooin Company, which developed UNLIMEAT, has been concentrating on developing meat substitutes, recognizing the seriousness of greenhouse gas emissions and environmental pollution caused by existing livestock farming methods. Furthermore, the company has focused not only on solving environmental problems but also on providing healthier products to consumers. Zikooin Company has introduced various types of meat substitutes that are low in calories and sodium, and free from cholesterol and trans fat, which are the causes of various metabolic syndromes and geriatric diseases. Zikooin Company is preparing for a bigger leap forward with the construction of Asia's largest plant-based meat substitute factory, which is scheduled to be completed in 2022.

(2) Main product and its competitiveness

UNLIMEAT is a leading brand in the field of plant-based alternative meat. Since its establishment in 2017, Zikooin Company, which developed UNLIMEAT, has been improving the quality of its products through ceaseless R&D. Zikooin Company has proven its stable product power based on its unique technology and production capacity. In addition, the company is positioning itself as a plant-based alternative meat company that is pioneering the Asian market beyond Korea while responding agilely to consumer trends.

UNLIMEAT has put a lot of effort into internalizing its production capabilities as well as its unique technology to develop meat substitutes. By promptly managing the entire process from R&D to mass production of finished products, the quality of products was improved, and the time to supply new products to the market was gradually shortened based on the accumulated experience.

UNLIMEAT was listed in the ‘Food Tech 500’ selected by London-based Forward Fooding and was certified by Monde Selection, an international quality evaluation organization, proving its global competitiveness in the field of alternative meat. Currently, while advancing the technology that can realize the texture and shape of more diverse beef cuts, research is also underway to increase the nutritional content and functionality.

Agility and strong execution ability to quickly detect changes in demand and reflect them in the business are other strengths that have driven the growth of UNLIMEAT. As it began to attract attention from domestic and foreign restaurants and a number of global food brands that want to diversify its vegetarian menu, Zikooin Company is promoting active collaboration and expanding our overseas export options. The UNLIMEAT brand is expanding to the United States, China, Australia, Hong Kong, Vietnam, Singapore and Taiwan. In October 2021, the company held a groundbreaking ceremony to build Asia's largest 'clean meat' production facility in Jecheon, Chungcheong Province, and plans to expand its production capacity to more than 1,000 tons per month by 2025. In addition, the company plans to establish a low-carbon system for the new food manufacturing plant by optimizing resource utilization, increasing energy efficiency, and introducing electric logistics vehicles. In addition, the company aims to grow into a global competitive alternative meat brand by establishing a source-only line capable of vegan, halal and kosher certifications, and separately operating a gluten-free production line to prevent cross-contamination.

(3) The solution to the social and environmental issues (ESG Factors)

Zikooin Company has adapted the below business activities to save the earth with fulfilling ESG values

- Development of plant-based alternative meat as an alternative to solving the problems of greenhouse gas emission and water pollution in the livestock industry
- Contribution to the acceptance of plant-based meat substitutes as a practical alternative to meat by faithfully realizing the taste and nutrients of meat by continuously investing in R&D and expansion of production facilities

Zikooin Company's business model is aiming to contribute reduction of greenhouse gas emissions and environmental pollution caused by existing livestock farming methods. In addition, the company has focused on improvement of humankind's welfare since its establishment, by providing healthier products to consumers.

(4) Successful investment attraction

Zikooin Company operates a plant protein brand 'UNLIMEAT'. UNLIMEAT is a compound word of 'unlimited' and 'meat', meaning vegetable protein that has no restrictions on appearance, cooking, and taste. It uses soybeans and other grain materials to make products.

Founder and CEO Min Keum-Chae explained that she developed 'UNLIMEAT' because she wanted to solve problems such as the environment that all earthlings had to solve. Furthermore, CEO Min Keum-Chae introduced 'UNLIMEAT', a plant-based meat made from brown rice, oats, and nuts, to the world over a period of one year and six months after the founding of 'Zikooin Company'. 'UNLIMEAT', completed through its own R&D (research and development), reproduces the taste, aroma, and texture of meat that is excellent enough to compete shoulder-to-shoulder with alternative meats such as 'Beyond Meat' and 'Impossible' in the United States. In 2019, it was selected as 'A-Ventures' by the Ministry of Agriculture, Food and Rural Affairs in recognition of its development of Korean plant-based meat. A-Ventures is a project that selects excellent agri-food companies.

Social and environmental impact come first as key considerations when Zikooin Company is established and develops product. Thus, it naturally linked to the investment attraction with satisfying the needs of impact investing. Starting with the pre-A series in January 2019, the series B investment attraction was successfully completed in September 2021, and the accumulated investment amounted to KRW 14.5 billion.

To be more specific, the factors that led to the success of Zikooin Company's investment attraction can be explained as follows in terms of mission, management strategy, business model, and communication with investors.

Zikooin Company has set the mission of ‘Make the Earth Cleaner and Healthier' since business started. Furthermore, the final goal of the business was to create social value by considering UN SDC 12(Responsible Consumption and Production) and 13(Climate Action) when business strategies are incorporated. Zikooin Company has business goal, to contribute creating a sustainable food system that has a positive impact on the environment. UNLIMEAT is not only a plant-based product, but also a driver of innovation toward sustainable food systems. UNLIMEAT is now being regarded that can make a difference in food governance and encourage more forward thinking food governance.

Zikooin Company has a food tech business model that uses agricultural products thrown away due to defects in appearance to manufacture products with added value. By developing UNLIMEAT, a plant-based alternative meat made from brown rice, oats, and nuts, it continues to open up a new market for healthy alternative protein intake. Zikooin Company produces products that contribute to the global environment and create social values that reduce agricultural stocks and increase farm household income through food tech.

Zikooin Company has been actively utilizing the capabilities of impact investors in its management. For example, Zikooin Company was able to obtain ideas on how to measure the reduction of carbon emission through advice from impact investors, in order to identify the level of contribution into the environmental improvement with its flagship brand, UNLIMEAT.

In addition, impact investors continued to share impact investment and food tech industry trends for Zikooin Company, which became an important guide for the management to focus on the core of the business. Zikooin Company was able to become a leading food tech company by engaging them in the daily management process rather than defining impact investors as the subject of management performance reporting, together with attraction of subsequent investment.. In a nutshell, this example tells that proactive communication with impact investors might be linked to the business success and creation of social value.

<Table 4. Zikooin Company’s success factors in investment attraction>

Classification	Success Factors	Description
ESG Business Activities	Strategy	▪ Implementation of business goals aligned with UN SDG 12 and 13 ▪ Agility and strong execution ability utilized to quickly respond from the market requests. ▪ Escalation of brand image with focusing on solving environmental problems and providing healthier products to consumers.
	Business & Operation model	▪ Development of plant-based alternative meat as an alternative to solving the problems of greenhouse gas emission and water pollution in the livestock industry ▪ Utilizing agricultural products thrown away due to defects in appearance to manufacture products with added value ▪ Contribution to the acceptance of plant-based meat substitutes as a practical alternative to meat by faithfully realizing the taste and nutrients of meat by continuously investing in R&D and expansion of production facilities
	Corporate Culture	▪ ‘Social and environmental impact come first’ as key considerations in doing business ▪ Agility and execution recognized as core ability to cope with market demand and product change requests
Communication	Reporting & Communication	▪ Impact investor considered as a business partner, not a capital investor in doing communication ▪ Utilizing impact investor in solving business problem ▪ Reporting and communication focus on in the processing of business, not a delivery of business result

2. Enuma

(1) Introduction of Enuma

Enuma creates exceptional learning solutions that allow all children to gain confidence and independence while building foundational skills. The name Enuma comes from the word enumerate, or to name one by one, which underscores our commitment to every child’s individual success, including children with special needs or without resources.

Enuma's main products are categorized into B2G/B2NGO product designed for children of underprivileged families, called ‘Kitkit School’ and ‘Enuma school’, and B2C product designed for universal pre K-12 children, called ‘Todo Math’ and ‘Todo English’.

Enuma seeks to innovatively increase accessibility to education by entering the public education system in developing countries. As of 2020, approximately 60 million primary school students around the world were estimated to not have the privilege of enjoying proper school education. Such students are regarded as Enuma's target group for impact. Among these students, approximately 32 million reside in Africa, while 7.4 million reside in Southeast Asia and Latin America, accounting for 67% of the total target group population. Enuma's first priority targets are children residing in these regions.

Enuma's business goal is aligned with the United Nation's Sustainable Development Goal 4: Quality Education. It is especially directly linked to the UN SDG Target 4.2, which states that 'by 2030 ensure that all girls and boys have access to quality early childhood development, care and pre-primary education so that they are ready for primary education'. Although the majority of children around the world enroll in primary schools, 60% of all children (610 million) are unable to achieve the literacy or numeracy standards of a second grader. It has been found, regardless of the country they live in, that there is a deviation of about 1 to 3 years in the children's ability to learn depending on the environment they are brought up in before entering primary school. This deviation is known to continue to broaden even after enrollment. This ultimately lowers the willingness to learn, acting as a major obstacle against their progression to higher education. An annual sum of approximately 110 billion dollars is known to be spent around the world to maintain learning systems that do not produce significant learning outcomes. UN SDG 4.2 aims to resolve such social problems. Enuma's business, which also aims to solve relevant social problems, provides self-directed learning software that allows all children to acquire basic numeracy and literacy skills on their own without having to rely on school systems and teachers.

Enuma is targeting to cultivate turning point in digital education system over the world by supporting to children who have difficulties in obtaining high quality of education. The company takes consideration to the isolated children from the existing education system with having the insufficient educational resources. For those children, the company makes focus on improvement of their educational performance after being the winner in Global Learning Xprize

Enuma's mission is to 'Empower ALL Children'. Sooin Lee, founder and CEO of Enuma, determined the purpose of Enuma' s business to be able to provide all children with learning opportunities and therefore achieve tangible learning outcomes through Enuma's products despite any physical or economic limitations. Her vision has continuously been affirmed through numerous media interviews and the company website.

Enuma provides the best numeracy and literacy learning applications designed to help all children learn without the assistance of teachers, allowing them to advance faster into a world in which they can learn on their own. Enuma has been opening up a new learning market for children unable to receive basic education with the cooperation from and NGOs around the world, and has, from the very beginning, consistently pursued the expansion of learning opportunities based on EdTech.

(2) Main product and its competitiveness

Kitkit School was designed as a solution to increase accessibility to education for children in developing countries. It is a comprehensive literacy/numeracy learning program that allows self-directed learning on tablets (that cost less than 150 dollars) that meet standard specifications. No internet connection or teacher guidance is required. Combined with the public education system, this program provides learning opportunities for children who have less access to education due to shortage of schools and teachers. The program provides a comprehensive literacy/numeracy curriculum that covers up to second grade level education, and its flexible module-based system allows it to easily customize new settings, such as adding new languages and curriculums.

Enuma School is the extended version of Kitkit School. It has currently been developed as a local version tailored to the Southeast Asian market, and has been designed to operate in both mobile and online environments. Both Kitkit School and Enuma School allow self-directed learning for children in a teacherless environment. They feature 300 literacy courses (700 games), 300 numeracy courses (500 games), 200 quizzes, as well as 230 digital books to read. In the Korean market, Enuma developed a separate 'Geulbang' program, which is a Korean language learning program designed for both children from multicultural families, as well as children who find learning more challenging.

Meanwhile, Enuma's learning programs, which are designed based on the principles of universal design and adaptive learning, are sold directly to individual customers in countries where individuals have the ability to pay. This enhances accessibility to practical education for children who have been unable to get results through existing education systems and products.

(3) The solution to the social and environmental issues (ESG Factors)

Enuma has adapted the below business activities for children, who are not provided proper school education.

- Distribution of software that enables self-directed adaptive learning to children unable to benefit from school education

- Acquisition of basic literacy and numeracy skills for the children through the distributed software
- Securing of increased income upon reaching adulthood among children who entered into higher education after having received better primary education

Enuma’s business model is aiming to contribute to the resolution of the income inequality by providing educational software to children who do not have basic educational support from their parents and government. Since the equal opportunity of education would be regarded as a critical measurement in the resolution of income inequality, especially for children, Enuma’s business model and vision can contribute enhancement of social welfare.

(4) Successful investment attraction

Enuma has been classified to a social venture start-up company since the business is launched by the company. Enuma’s mission and business goal align with United Nation's Sustainable Development Goal 4: Quality Education. Furthermore, ESG factors are embedded to their business nature, and it enables to make successful investment attraction, especially impact investing. Enuma’s investment attraction is reached to the amount of KRW 22bn as an accumulated basis. The investment attraction started at Seed stage, in 2013 and was positioned at the stage of Series C recent. The successful story of investment attraction tells that start-ups will have an advantage in investment attraction with the internalization of ESG business activities impacting the social and environmental considerations.

To be more specific, the factors that led to the success of Enuma's investment attraction can be explained as follows in terms of mission, management strategy, business model, and communication with investors.

Enuma has set the mission of 'Empower ALL Children' since business started. Furthermore, the final goal of the business was to create social value by considering UN SDC 4.2(Equal access to quality pre-primary education) when business strategies are incorporated. Enuma recognizes the learning gap that occurs because 60% of children around the world fail to achieve basic academic skills before entering elementary school as a social problem, and is trying to solve it through Ed Tech. Enuma has a view these social problems as a newly opened market and believes that it will lead to attractive revenue-generating opportunities.

Enuma has driven impact investing by creating a business model that can coexist with society. Also, even after attracting investment, Enuma did not consider impact investors as simply reporting business performance and attracting additional investment. Enuma has been able to reach the current value of the company by dealing with impact investors as business partners and by actively communicating with them to obtain the business consultancy and advisory for Enuma's economic growth and social value creation.

<Table 5. Enuma's success factors in investment attraction>

Classification	Success Factors	Description
ESG Business Activities	Strategy	▪ Implementation of business goals aligned with UN SDG 4.2 ▪ Market development and expansion by performing B2G/B2NGO
	Business & Operation model	▪ Identification of the market, approximately 60 million primary school students who do not have the privilege of enjoying proper school education around world ▪ Opening up a new learning market for children unable to receive basic education with the cooperation from and NGOs around the world ▪ Providing the best numeracy and literacy learning applications designed to help all children learn without the assistance of teachers ▪ Consistent pursuing the expansion of learning opportunities based on EdTech
	Corporate Culture	▪ Organizational culture aimed at solving specific social problems rather than generating profits ▪ Focusing on the creation of social value rather than the achievement of financial performance for the escalation of corporate value
Communication	Reporting & Communication	▪ Impact investor considered as a business partner, not a capital investor in doing communication ▪ Management information shared with impact investors for their participation in important business ▪ Business consultancy or advisory provided by the investors upon requesting

3. Status of Impact Investing in Worldwide and Korea

Implementation of ESG management might not be an option for start-ups and essential consideration for the incorporation of business in the near future. As shown in below investment trend for worldwide and domestic, the volume of impact investing is remarkably increased, to cope with investment market expectation and demand. Therefore, ESG factors and internalization to the organization might be necessary components to be adapted by the entrepreneur.

(1) Worldwide

- Volume of investment

As of 2019, the size of global impact investment is estimated at USD 719 billion (about KRW 830 trillion). This is a 10-fold increase from the 70 trillion won in 2015, showing the rapid growth of the overseas impact investment market. Two-thirds of impact investment institutions responding to Global Impact Investing Network(GIIN)'s survey are impact investment-specialized institutions, but the other third are institutions that also engage in general investment. In other words, there are not a few investment institutions that conduct 'normal' investment and impact investment at the same time.

World-class investment institutions such as Bain Capital, Goldman Sachs, and JP Morgan are also competing to form an impact investment fund or set up a separate business division to actively conduct impact investment. This is evidence that impact investing is attractive even from a typical financial perspective. Major companies that have grown through impact investing include Airbnb, Kickstarter, and Tom's Shoes.

- Investment return

As of 2018, the average rate of return has been achieved17.6% by the impact investment institutions with targeting the developing & developed, whilst the average rate of return of impact investment institutions targeting the underdeveloped/emerging countries was 17%. According to Cambridge Associates, the 10-year average return of a typical global PE company is about 12%, which is much higher than that. As an individual case, the ESG Calvert Fund, which is a rather passive impact investment, has returned a whopping 33% in the past year, and the Acumen Fund, which is a more aggressive impact investment, has a cumulative return of about 25%.

(2) Korea

- Volume of investment

The volume of the domestic impact investment market reached KRW 54 billion in 2015 and KRW 76 billion in 2016, but the impact fund of KRW 175 billion was created in 2018 alone,. The minimum amount of an impact fund formed over the past three years is estimated to be about KRW 400 billion. In addition, the government announced that it would raising an additional impact fund of KRW 300 billion within five years.

Only 10 years ago, impact investment companies such as SOPOONG, D3 Jubilee, and Impact Square were participating in the domestic impact investment market. However, major financial companies such as KB, Shinhan, and Hana have incorporated impact funds in recent with amount to hundreds of billions of Korean

won.
Moreover, equity investments have been made in more than 164 domestic companies, and the five most actively invested sectors are education, sharing economy/platform, content, food and healthcare.
Major companies that have grown through impact investing include Socar, Danggeun Market, Marymond, Enuma, and Jaranda.

- Investment return

Investment return from impact investing is not officially announced for Korean investors due to the lack of information and its short history, however, the result of investment from ESG fund and Social Responsible Investment(SRI) would be used as referral information.

As of 2019, there are a total of 25 ESG related funds in Korea and 9 out of 17 funds with a yield of 10% or higher, excluding 8 recently established funds. According to FnGuide, a financial information analysis company, the returns of 42 SRI funds listed in Korea recorded 2.30% for the past one month and 12.40% for three months, higher than the returns of stock-type funds.

IV. Proposed Work

1. How to implement ESG management for start-up enterprises

The setting of clear purpose shall be critical activity to implement effective ESG management. Especially, for start-ups, clear and obvious business purpose will be regarded as a compass to keep right direction in fulfilling their mission. The purpose should be declared and well explained to the organization, and this works helping imagine to the vision of the company.

A declaration of purpose is meaningless unless it is put into practice as the case study implied. Let's discuss the five strategies needed to internalize purpose in a company: strategy, operating model, corporate culture, internal reporting, and the board of directors.

- Strategy

Let's start with strategy, engagement should be built on the company's purpose. The goal of outdoor apparel company Patagonia is to restore the environment, as emphasized in its declaration that 'we do business to revive our home planet'. On Black Friday in 2011, Patagonia ran a full-page ad featuring a Patagonia fleece in the New York Times with a headline saying, "Don't buy this jacket." It was a ‘Come Together, Campaign’ to encourage customers to mend their old clothes rather than buy new ones. Through this campaign, Patagonia repaired more than 30,000 garments in 18 months. On the contrary, after the campaign, sales increased by 30% in 2012. Patagonia also launched a second-hand online market, One Wear, in 2017, despite concerns about a decrease in sales of new products. (알렉스 에드먼스, 2021)

The fact that trust can be built through strategy is another advantage derived from the 'focus of purpose' that we evaluated positively earlier. It is easier for stakeholders to ensure that a focused statement of purpose is being put into practice rather than the ambiguous purpose of doing everything, and the strategies derived from it are likely to serve that purpose.

- Operational Model

A second way to internalize purpose is to align a company's core operating model with purpose. For example, when UK hypermarket Tesco defined its core objective as “creating value that will earn customers a lifetime of loyalty,” Tesco had to ensure that its company processes were firmly aligned with its customers. Tesco achieved over 90% efficiency in product acquisition. However, this alone was not enough to satisfy ‘customer lifetime loyalty’. So Tesco has redesigned the process to make it convenient for customers to purchase products at any time. Tesco promised to have managers in all its stores to help customers, but did not have the management and training systems in place to implement. So Tesco has simplified store operations and hierarchies so that managers can focus on customer service and not spend time on unnecessary upward reporting. It also launched a leadership development major program

Even if it's not a destination-oriented company, the company will be judged to a good company that should have an efficient operating model and management training. If it is possible to roughly estimate what the effect will be, the ESV point of view will also support that it is desirable to improve the process and improve the manager's ability. However, all companies face trade-offs. However, all companies face trade-offs. Even at the best companies, there is room for improvement in various elements of their operating models. Reviewing the operating model involves prioritizing the work that needs to be improved most urgently to achieve its objectives. This shows once again the need for selection and concentration in establishing a purpose.

- Internal Reporting

Third, the CEO must ensure that integrated reporting takes place within the company as well as outside the company. This includes gathering information about how people, teams, and projects are performing with respect to purpose. This information can be used as a basis for performance evaluation.

Sometimes the CEO appeals to only the senior management, just below the top executive level, for support of the purpose, and directs employees to focus on the department's financial goals. One executive described these senior executives as "clay." Just as clay blocks the flow of water, so senior management prevents the spread of purpose throughout the warrior. This is a problem caused by the way senior management is evaluated in the real world, rather than a deliberate interference from senior management.

In addition to supervisor evaluations, integrated internal reporting capabilities allow employees to see how well they are doing and make informed decisions. To do this, the company-wide goals must be detailed enough that employees can influence them.

Although Marks & Spencer reports greenhouse gas emissions and breaks them down by region, activity (eg cooling versus heating), and department (eg food versus clothing), it does not provide specific guidelines for individual colleagues running a single store. So Marks & Spencer tracks information internally at individual store units. Emissions activity is also being measured because it is the emission activity (using electricity, gas, refrigeration, etc.), not the emission, that employees have direct control over.

- Corporate Culture

A fourth way to internalize purpose is to align corporate culture with purpose. Purpose is about why a company exists and who it should contribute to, but culture reflects how it operates. In a nutshell, culture is "how an organization works." Culture is important to ensure that any purpose is projected throughout the company.

For the purpose to come alive in an enterprise, the right culture must be promoted. For example, Reckitt Benckiser's 'To create healthier lives and happier families through our product innovations' is supported by a culture that emphasizes autonomy, takes risks, and tolerates constructive failure. In contrast, Walmart's cost-emphasis goals, such as helping people save money and live better, must be accompanied by a culture that prioritizes efficiency and clearly defines the role they play.

Leaders can shape a culture by setting an example for themselves in strategic choices. However, the leader cannot do everything alone. Some companies hire people to lead change in the field. Danish biotech company Novo Nordisk has established a cultural principle known as the 'Novo Nordisk Way' to support its goal of 'initiating change to combat serious chronic diseases such as diabetes'. And to facilitate the implementation of this principle, 'facilitators' were put in place. The team observes business units, interviews managers and employees, reviews business unit policies, and then reports overall information and trends to the company's management.

L'Oreal, a French personal care company, has established four ethical principles that underpin its goal of 'innovating cosmetic products for everyone' and has a network of over 75 ethics officers for inclusion throughout the company and in all countries where it operates. By adapting these principles to local customs, they ensure that employees are educated on ethical behavior, know how to raise ethical concerns, and serve as a soundboard for ethical inquiries.

Recruiting people who fit in well with the corporate culture is another way to shape the culture. Consider Patagonia's mission. Founder and CEO Yvonne Shenard said, "All other things being equal, in any position, hire someone who is dedicated to saving the planet." Shoe maker Zappos invites new hires to participate in a one-month program that incorporates company values, and offers $2,000 in resignation support if they don't agree with those values. (A similar program was adopted by Amazon, which acquired Zappos in 2009.)

Like Southwest Airlines' motto, "recruit by attitude, teach skills," Southwest co-founder Herb Kelleher prioritizes how well they fit into the company's culture over experience or academic background when hiring people.

- Board of Directors

Finally, for the purpose to take root throughout the enterprise, the board of directors, as well as employees, must change. In 2014, Harvard Business Review argued that only 10% of the boards of publicly traded U.S. companies were committed to corporate responsibility, and that this should be spread further. For Korean companies, ESG topics are on the table as board of directors meeting agenda in recent. The purpose should be a formal obligation of the board as a whole, essential to the core business of the company, and not as a subsidiary activity that can be delegated to subcommittees. Boards of directors shall not approve any strategic initiative or capital expenditure proposal in a corporate merger or acquisition transaction without verifying that it is consistent with the objectives of the corporation.

Similarly, boards typically spend only two days a year discussing and agreeing on a strategy. These processes should be fit for purpose. In addition, boards of directors should ensure that the company's non-financial goals are relevant and aspirational with respect to purpose, and monitor whether they are actually working toward achieving them.

Because objectives cannot be assessed with quantitative indicators alone, the UK Financial Reporting Board recommends that outside directors go directly to the field to better understand the company. There are currently proposals to include staff on boards of directors in the United Kingdom and the United States, and some European countries are doing so. However, it is more effective to lead the board to the field.

Although the purpose is the responsibility of the entire board, committees can be useful in monitoring the dimensions of a particular purpose. Most board structures focus solely on shareholder value, with committees dedicated to compensation, director nomination, risk, and auditing. Companies may also set up committees responsible for key stakeholders, such as human capital committees or environmental committees, after deciding who to contribute to. Otherwise, alternatively, these issues should be on the agenda of the entire board. Setting the keynote at the top helps to spread the purpose throughout the organization.

2. Effective communication with stakeholders

Communication is not just about reporting, it also involves engaging with investors and stakeholders of a company, especially those included in the statement of purpose. There are two major differences. First, while reporting is impersonal, communication takes place through personal face-to-face. Reporting is done through documents such as annual reports. Face-to-face meetings are the most effective for communication. Investors and stakeholders can learn much more from meetings and observe how leaders interact. A global consortium of companies and investors presents a roadmap on 10 topics that will be the focus of discussion to maximize the effectiveness of communication.

Second, reporting is one-way, while communication is two-way. Through town halls or videoconferencing webinars, colleagues can directly ask questions and share their experiences. Likewise, leaders can learn from investors through closed meetings. Many companies only seek to meet with investors in urgent situations, such as mergers and acquisitions or resolutions, but they should meet more frequently on a daily basis. Companies receive advice from consultants on matters such as strategy and capital allocation and pay high advisory fees. However, investors and stakeholders are willing to act as a sounding board without being paid. Although they are business ally in growing the pie, they are underutilized. Also, meeting investors on a daily basis is one of the best ways to prevent shareholder activism.

One idea to improve two-way communication with investors is to give them “say-on-purpose” in the nature of a recommendation. Similar to EU say-on-pay voting rights, it can be divided into two. In other words, it is a future-oriented 'policy decision' on the purpose of the company and a 'implementation decision' that checks whether it has been implemented or not. When an investor's clear sympathy for the organization's purpose through a policy vote, it can reconcile the conflict of interest that the organization's purpose inevitably creates. The implementation resolution allows investors to track relevant indicators and hold them accountable for implementation.

Voting is not a perfect tool because it can only express pros and cons. A negative vote alone doesn't tell you in what ways an investor is dissatisfied. Even if you voted yes, it doesn't mean you're happy in every way. Voting is just one outcome of a broader process of engagement. Voting requires investors to analyze the statement of purpose and carefully review whether it is being implemented. Based on this evaluation, decision-making methods can be decided and communicated to management.

Investors already have say-on-pay voting rights in most countries, but corporate objectives are more important than payroll policies. A bad wage policy can ruin a company, but a good wage policy doesn't make a company good either. But a company can be great if its purpose is great. Voting on purpose allows investors to express their opinions about the most important aspects of a business that society needs. Leaders who gain the backing of investors feel confident in their actions in line with the company's purpose. Even if short-term profits are sacrificed. In this way, investors can contribute to the company's continued internalization of purpose even after the current CEO leaves the company.

The term “equity capital (or shareholder capital)” is often used to describe how much money shareholders initially invested in a company. However, ‘stakeholder capital’ is intended to be defined as the value of the relationship a company has with its stakeholders, not the amount invested by stakeholders. Investor capital goes beyond the present value of an investment to include the extent to which the investor supports the company's purpose and understands important indicators, and how well the company participates in delivering outstanding performance.

There are studies that explore the benefits of investing in relationships with investors. The study found that stock prices rose 2% on average after investors attended the CEO Investor Forum. The CEO Investor Forum is an event hosted by the Strategic Investor Initiative (SII), where leaders share long-term plans with key investors. The response has been particularly positive when companies disclose purpose-specific and actionable information.

V. Conclusions

1. Discussion and implications

The economic term that has been frequently discussed topic would be ESG, in recent. For this reason, this study checked out the meaning of ESG, the background of ESG introduction, and reasons for the rapid rise of ESG. Capitalism in previous drove limitless competition with efficiency as its highest virtue, and produced side effects such as monopoly, extreme income inequality, and an increase in the poor. As the existing capitalism was threatened by serious side effects, stakeholder capitalism was launched as a countermeasure to replace shareholder capitalism.

Stakeholder capitalism can consider all parties that directly or indirectly influence the business activities of a company as the subject of economic activities. Stakeholder capitalism has rapidly emerged as ESG management, and has recently even brought about changes in investment trends in the capital market. In other words, if ESG factors are not considered in corporate management, it is difficult to consider them as an investment target any longer. Such changes in the capital market can be both a crisis and an opportunity for start-ups in terms of investment attraction. The recent changes in the capital market will come as a good opportunity for start-ups that introduced ESG management when establishing a business strategy, together with the internalization of ESG management into their management policies.

For start-ups, attracting investment is an important activity that determines the existence of a company. If start-ups can smoothly conduct investment attraction and receive support from investors for management know-how, the stability and prosperity of start-ups will be much earlier than start-ups that do not. As representative examples of this, we looked at Zikooin Company and Enuma, whose management goals were to solve social and environmental issues from the time of their founding. They were able to attract impact investing without difficulty by launching ESG relevant products or services at the time of start-up, and they are taking a leap forward to achieve their vision and mission through subsequent investment.

The most important thing is to internalize ESG factors into daily management. Internalization of ESG management can be advantageous for start-ups starting from nothing rather than large corporations or mid-sized companies that need to change the established work practices. Therefore, if start-ups can incorporate ESG factors into their management policies, they will be able to contribute to social development and citizen welfare as well as attracting impact investments.

2. Research limitations and future research

The significance of stakeholder capitalism and the background and meaning of ESG management were surveyed by this study. It was also found that the advent of a new management paradigm brought about changes in the capital market. If we look at the center of the current change, much money flows to companies that have introduced ESG management, and companies that have not adopted ESG management might be experiencing a lack of capital in certain cases.

In a situation where the practice of ESG management has an important influence on investment decision-making, the disclosure of information on ESG management activities of investee companies is becoming more important. Although the sustainability report is a representative method of disclosure, currently, companies are voluntarily disclosing ESG management activities through the sustainability report. However, there are no unified reporting standards or disclosure standards, making it difficult to ensure comparability between companies and reliability of reports.

In order to solve these difficulties, government agencies and various non-profit organizations have been establishing a unified sustainability report preparation standard and certification procedure over the past years. The benefit of the sustainability report based on unified standards is expected to be higher than the current one, and for start-ups, the opportunity to attract investment can be expanded through the preparation and disclosure of the sustainability report. Therefore, it is necessary to deal with the matters necessary for the effective preparation of the sustainability report of start-ups and the increased communication with stakeholders through follow-up research.

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