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Differences between Corporate Social Responsibility (CSR) and ESG (Environmental, Social, Governance) Management in the Financial Industry

– Shinhan Financial Group's Investment Operation, the Board of Directors, and the Organization in Charge –

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Professor Rhee Dongkee

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Graduate School of Business
Seoul National University
Strategy and International Management

NAMGUNG, Jin

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NAMGUNG, Jin
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Chair	Song Jaeyong	(Seal)
Vice Chair	Lee Jeho	(Seal)
Examiner	Rhee Dongkee	(Seal)

Abstract

NAMGUNG, Jin
Strategy and International Management
Graduate School of Business
Seoul National University

Along with the COVID-19 Pandemic, discussions on ESG management are vital in business strategy. ESG management emphasizes the importance of non-financial factors such as environment, society, and governance in evaluating corporate valuation. Research on the background and conceptual differences between CSR and ESG management is active, but research on management strategies in the financial industry is still in its early stage. This study aims to find out the difference in management strategies between CSR and ESG in the financial industry through a case study of Shinhan Financial Group. Based on Shinhan Financial Group's social responsibility report, I divided its CSR and ESG management timeline into CSR, ESG management transition, and ESG management. CSR and ESG show differences in the structure and operation of the board of directors (BOD), the organization in charge, and investment operation. First, BOD established a dedicated sub-committee for ESG management, and ESG management performance was reflected in the performance evaluation of the CEOs and

affiliates. After the adoption of ESG management, the organization in charge was integrated and assigned to the group strategy division. CSR organizations were separated in each division, such as human resource, strategy, customer center, and internal audit. Shinhan Financial Group is the only financial group that operates the ESG strategy team in the strategy division. Lastly, social contribution loans and Socially Responsible Investment (SRI) funds are the majority of investment products during CSR. Since 2015, when ESG management started, ESG-related products such as ESG funds and Exchange Traded Fund (ETF) were released. The products screened investee companies by using the ESG rate of the investee. Even though some firms were screened, the products shared similar aspects with the existing index products because ESG-related products put more weight on market capitalization rather than ESG rates. Future ESG organizational research also needs to study the impact of integrating or separating ESG management departments on corporate ESG performance. It seems necessary to research the influence over a firm' s ESG rating depending on the reflection of ESG management performance in evaluating CEOs and affiliates. In addition, it is vital to study the correlation between a firm's ESG performance and the ESG department's place in the hierarchy, such as strategy, public relations, or other sectors. Finally, it will be a

more meaningful exploration if future studies research the relationship between the ESG committee characteristics (scale, diversity, independence, and activity) of the board of directors and ESG management performance.

Keyword : Corporate Social Responsibility, ESG, ESG Investment, The structure of Board of Director

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Chapter 1. Introduction

1.1. Research Objective

ESG management is drawing attention around the world exponentially during the recent COVID-19 pandemic. On the surface, ESG management is not much different from the existing CSR. However, ESG and CSR are fundamentally different. ESG is not limited to donations, social contribution activities, and environmental campaigns. ESG is a corporate responsibility that encompasses not only traditional financial factors but non-financial factors, such as environment, society, and governance (Kim, 2021).

Academic interest in CSR or ESG has increased tremendously, especially over the last 30 years. Countless studies have been conducted in the field, and the most frequent research theme covered by scholars in the field over the past 20 years has been the relationship between CSR/ESG and corporate financial performance. (Kim and Park, 2021). However, studies dealing with the differences in business strategies between ESG and CSR of financial companies are relatively insufficient.

This study aims to analyze how ESG and CSR are different in terms of business strategies (operation of investment, the structure of the BOD, and the organization in charge) through a case study of Shinhan Financial Group, which is well known as a leading ESG financial group in the Republic of Korea. Figure 1 shows Korean financial groups' ESG rate by Morgan Stanley Capital International (MSCI, 2021)

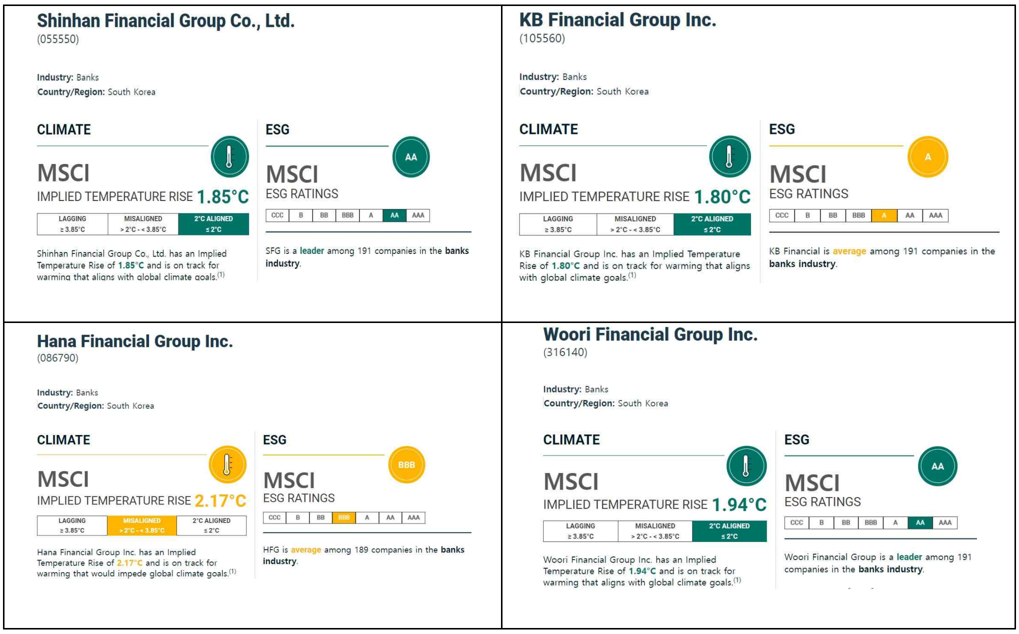

Figure 1: MSCI ESG rate of Korean financial firms[①]

Among the various industries, this study focuses on the financial industry. Because financial industry is expected to play a leading role in allowing other industries to conduct ESG

[①] Source: MSCI ESG rating (ESG Ratings & Climate Search Tool – MSCI) management through various financial services and investment products such as green bonds, ESG funds and ETFs (Exchanged Traded Fund). According to a report from Korea Capital Market Institute, financial industry needs to play a leading role to create the environment that can vitalize ESG management for other industries and firms because it is challenging to execute ESG policies above the threshold level due to agency problem and difficulties in measuring social value of ESG management.

As previously stated, previous studies that compare the concepts and the background of ESG and CSR are rich. However, the research covering the differences in business strategies between CSR and ESG is at the early stage. Therefore, I conducted a qualitative study to present a proposition for future research and to accumulate even a little step for the research.

This study explored the differences in the management strategy between ESG and CSR in the financial industry in terms of the BOD's structure, operation of the organization in charge, and operation of investment products. When it comes to time boundary, I divided into three periods, CSR Management (2005−2014), ESG Management Transition Period (2015−2016), and ESG Management

Period (2017-2020), based on Shinhan Financial Group's Social Responsibility Report (2005-2020) and Annual Corporate Governance Report (2014-2020).

The BOD established a subcommittee dedicated to ESG management and expanded its scale and activities. The organizations in charge were operated separately for each business division during CSR, but it was integrated into one department in the financial holding company. In addition, the ESG management strategy team was organized in the same strategic division as the group strategy planning team to match the plan and execution functions. During the CSR period, investment products were green bonds, low-interest loans for low-income households, small business loans, and SRI corporate funds. During ESG management period, however, ESG funds and ETF, which reflect ESG evaluation of investment target companies, were released in addition to existing products. Unlike CSR management, the ESG-related products screened investee firms by ESG rate, but there were similar aspects to existing index products because they weighed on the market capitalization ratio than ESG rate.

Through this study, I suggest future research directions. First, it is possible to study how the structure and characteristics of the BOD (diversity, size, activity, independence) relate to a company's ESG management performance. In addition, the correlation between the company's ESG management department management method and ESG management performance can be explored. Finally, what would be the difference from existing products if ESG-rate was weighted rather than market capitalization when financial companies develop ESG-related products.

1.2. Research Background

Through the COVID-19 pandemic, all areas of our lives are rapidly changing. In particular, discussions on ESG management have exploded in management strategies. Moreover, global investors also strongly demand that the companies should consider ESG management seriously. In particular, Larry Fink, chairman of Blackrock, the world's largest asset management company, stressed the importance of ESG management in an annual letter to CEOs in 2020 (BlackRock, 2020). He emphasized that companies pursuing ESG management perform better than those not with the "Sustainability Premium”. He added BlackRock’s ESG factors when publishing a sustainability report. And he also highlighted that the firms are highly required to utilize those factors they provided and disclose the same criteria as themselves. Moreover, he warned that BlackRock would exercise voting rights against the executives and the BOD of the companies that do not make sufficient efforts in sustainability disclosures, such as climate change (BlackRock, 2020a).

Recently, global institutional investors' demands for ESG management have not stopped at slogan level. The largest pension fund in the United States, California Public Employees' Retirement System (CalPERS), established an ESG plan in 2016 and the fund began to require asset managers to consider ESG matters (Liu, 2021). In addition, Hanwha, Korean leading defense industry firm, sold its cluster munition manufacturing division in November 2020 under pressure from overseas institutional investors. European pension funds such as the Netherlands, Sweden, and Norway put Hanwha on the list of companies banned from their investment. Because cluster munition was recognized as an inhumane weapon because of massive collateral damages.

In January 2020, Blackrock also declared that it would withdraw its investment from the companies with a coal business share of more than 25% of total sales. Blackrock also sent a letter to KEPCO (Korea Electric Power Corporation) undergoing a coal power plant construction overseas, asking for the reason of continuing the investment in the coal business. The Dutch Pension Fund, one of the world's top three pension funds, took out all 80 billion Korean won of investment in KEPCO. Park Yoo-Kyung, head of the Dutch Pension Fund's Asia Investment Division, said in an interview with Korean Broadcasting System (Lee, 2021), " KEPCO continues to build coal-fired power plants even though the investors demand efforts to reduce carbon emissions, and the current business activity of KEPCO cannot be considered a responsible company such as participating in overseas coal-fired power plant projects." In response, KEPCO said that it would not participate in additional projects except for the projects currently being built.

These moves are not limited to foreign institutional investors and it spreads to foreign private companies. Some Dutch companies announced that they would not cooperate in Hanwha's flagship solar energy business. The reason was that Hanwha, which possessed cluster munition division, owns majority shares of Hanwha Solution, a solar power company. In other words, not only the investors but also partner companies also consider ESG management of their partners. In particular, Apple and Tesla announced that they would consider ESG of themselves and related companies in the supply chain.

Interest in ESG management, regardless of industry and stakeholders, is increasing rapidly. In particular, the financial industry can lead change or introduce new trends as capital brokers. Moreover, ESG and existing CSR have many similarities in terms of environment and society, so a clear distinction is required.

Therefore, this paper aims to study the case of Shinhan Financial Group to clarify the difference between ESG management and existing CSR management in terms of the board structure, investment product management, and organization in charge.

Chapter 2. Literature Review

2.1 Theoretical Framework of CSR and ESG

The theoretical background of CSR and ESG can be seen from the perspective of efficiency, agency theory, social responsibility perspective, and stakeholder perspective (Ha et al., 2010; Rodriguez-Gomez et al., 2020). The efficiency perspective, companies contributed to the national economy through employment, production, and tax payment. It shares a similar issue with the agency theory.

In a New York Times article called Friedman Doctrine, Friedman said that the essential purpose of a company is to maximize profits while saying the possibility that managers will take advantage of corporate social responsibility as an agenda for their social and political career. From the viewpoint of shareholder capitalism, if a manager, who is an agent of shareholders, consumes corporate resources for CSR instead of shareholders' profit. It ultimately undermines shareholder interests. (Friedman, 1970)

According to this point of view, CSR and ESG activities should be minimized as much as possible. A company's decision-making for the environment, society, and governance, not for shareholders' interests or corporate performance, is a factor that hinders corporate performance by incurring opportunity costs, in particular net income and investment. (Weidenbaum and Vogt, 1987; Williamson, 1967; Vance, 1975)

Danone's dismissal of CEO Faber supports this well. CEO Faber is well known as the CEO representing ESG management in Europe. He ran a food business, a social enterprise, with Yunus Muhammad, who won the Nobel Peace Prize as a "banker for the poor" in Bangladesh and formed France's first fund to invest in social enterprises. It also actively contributed to poverty eradication by opening programs to support emerging countries with the French government. Moreover, CEO Faber acquired WhiteWave Foods, an organic food manufacturer that replaces animal proteins, in 2017.

CEO Faber adopted an internal accounting policy that reflects carbon emission costs to Earning per Share in order to reduce greenhouse gases emitted from the food manufacturing process. Moreover, he announced ‘the Entreprise à Mission’ that includes social responsibility in corporate identity with the consent of 99% of Danone's shareholders in 2020. He said he knocked down Milton Friedman, who claimed that "corporate responsibility is to generate profits."

However, in CEO Faber's ESG management process, Danon suffered from poor performance in the original business, food manufacturing, and sales. In addition, expenditures in the R&D and marketing sectors have been decreasing. As a result, Danon's stock price fell while the stock prices of its rivals Nestle and Unilever rose 45% and 30%, respectively. Moreover, more than 2,000 employees were fired due to the overlapping COVID-19 pandemic.

As a result, activist shareholders such as Bluebell Capital began to pressure Danone to dispose of the poor business departments. The shareholders also demanded to separate the chairman of the board of directors and the CEO. Under pressure from shareholders, Danone's board of directors eventually dismissed CEO Faber on March 14, 2021. This is a representing example of the agency problem in ESG management.

Some scholars argue that CSR and ESG management are essential strategies to create corporate differentiation, competitive advantage or as marketing tools to improve corporate reputation and have corporate advertising effects. Corporate ethical behavior will increase corporate competitiveness by establishing sustainable and productive relationships with their stakeholders (Suppliers, Buyers, and the general public) (Jones, 1995). It also argues that if a company performs well with eco-friendly policies, it is a resource to create a competitive advantage (Russo and Fouts, 1997). In addition, it argued for a positive relationship between the performance of social and environmental sectors and corporate financial performance (Ben Brick et al., 2011; Menguc et al., 2010).

This can be explained by resource-based theory. According to RBV, the company's internal resources decide the source of corporate competitive advantage. Moreover, CSR activities and their reputation can be viewed as resources (Hart, 1995). Scholars advocating resource-based theory say CSR activities act as competencies for acquiring a company's competitive advantage (Hart, 1995; Russo and Fouts, 1997; McWilliams and Siegel, 2011), which helps companies secure competitive advantage and differentiation from its competitors. In conclusion, the resource-based theory is a representative theory explaining CSR and ESG.

Other scholars argued that CSR activities and ESG management act as marketing tools for corporates' reputation. And corporates' social performance leads to reputation improvement and positively affects corporates' performance. Baron argued that not only traditional market factors (market structure, competitive environment, positioning, etc.) but also external factors (government policy, social responsibility, management ethics) are essential and essential factors for corporate survival and prosperity (Baron, 1995).

Other than the theories dealt so far, Slack resource theory also explains CSR activities and ESG management (Waddock and Graves, 1997a). The theory argues corporates possessing more surplus can actively pursue CSR activities and ESG management than companies that do not, in tangled with the resource−based view. In other words, the extra resources generated by a company's outperformance are a decisive factor in inducing the company to pursue CSR activities and ESG management more actively (Waddock and graves, 1997a; Artiach et al,. 2010). Based on previous studies showing that CSR activities and ESG management are proportional to a company's financial performance, companies inject surplus resources from improved performance into CSR activities and ESG management, forming a virtuous cycle structure that improves performance.

Signaling theory also explains why companies conduct CSR activities and ESG management well. Signaling theory is about the effect of sending signals through specific actions or information to other market actors in an asymmetry of information (Connelly et al., 2011). Information asymmetry was first presented as an example of the used car market (George Akerlof, 1970). The signaling theory has been widely applied and used in social science. Previous studies explaining the theory's application to the CSR field were also confirmed (Greening and Turban, 2000; Backhaus et al., 2002; Rupp et al., 2006).

corporate management to external stakeholders who relatively lack information about the company management. CSR activities and ESG management can also be seen as a kind of signal that a company sends to external stakeholders (Backhaus et al., 2002). In the case of external stakeholders, it is difficult to access information on corporate management, so they have no choice but to rely on signals sent by companies. Therefore, the impact of the information on the company may differ depending on how external stakeholders interpret the signals emitted by the company through CSR activities and ESG management. In this regard, employees of companies with excellent ESG management performance show minor work neglect and absenteeism, which positively affects labor productivity (Flammer and Luo, 2017). In addition, companies with better CSR activities and ESG management have a higher corporate reputation and attractiveness, so the information acts as a signal to hiring excellent human resources and eventually improves corporate competitiveness (Greening and Turban, 1997).

In short, theoretical frameworks explaining CSR activities and ESG management are efficiency-oriented, agent theory, resource-based theory, market non-market integration strategy, extra-resource theory, and signal theory regardless of the correlation between both ESG management and CSR activities, and corporate financial performance.

2.2 Corporate Social Responsibility (CSR)

2.2.1 CSR's Historical Background and Development of Concept

The labor-management conflict, which developed when the artisan's work model changed to mass production due to the industrial revolution at the end of the 19th century, discovered a series of social problems that companies had no choice but to take measures to see as the beginning of CSR (Jenkins, 2009).

The capitalist model, which advocated maximizing profits and market autonomy in the 1950s and 1960s, revealed negligent behavior that caused corporate human rights and labor rights infringement. In the face of this reality, voices have emerged in society calling for more responsible actions by companies concerning social aspects (Gomez-Carrasco et al., 2016).

In the 1970s, a series of movements acted as a crucial role to introduce women's rights, environmental, and civil issues, to companies under the influence of the severe economic crisis (Carrol and Shabana, 2010).

Between the 1980s and 1990s, concerns about the environmental influence from human behavior, began to emerge, and numerous international organizations' summits were held on this concerns and issues for humans and labor rights have already been expressed (Salvioli, 2000). The goal of CSR policy is to improve companies' image and reputation and secure social justification to practice (Carrol, 2008).

In the 2000s, with the globalization of the market, the tremendous complexness of business relations with interest groups or various social groups took a step further toward forming changes of the company model (Cornelius et al., 2007; Shnayder et al., 2016).

Now CSR was an essential element of corporate response to assorted social needs (Jamali, 2008) and was taken as a method of taking on social responsibility and responsibility in consideration of the impact of the corporate operation on stakeholders, forming a trust for operation of companies in different markets (Jamali 2008; Panait et al. 2014; Tello and Rodríguez 2014).

Initially, it was a voluntary requirement, but companies widely accepted the requirements. At the institutional level, proposals for model norms for corporate governance in many countries were encouraged (Rodrigus-Gomez et al., 2020).

This was peaked in the 2000s as a change in CSR toward integration in business strategies (Arco-Castro et al., 2020). CSR is becoming portion of the main business strategy to ensure the competitiveness and efficiency of utilizing resources. CSR is the milestone along with innovations for promoting policies in the companies is becoming a major element in all fields, particularly in the environmental side (García-Sánchez and Araújo-Bernardo 2020).

The globalization of commercial and financial relations is the key of 21st century (McGuire et al., 1988). It implies persistent shifts in the economy and social progress. And CSR becomes a critical decision of corporate that involves both stakeholders and sustainability (Dahlsrud 2008). At the same time, some studies argued that reasons for companies to take social responsibility is to have more profitability than competitors with less social responsibility (Orlitzky et al. 2003; Vogel, 2005).

The social domain is closely linked to human resources (Lu et al., 2019). The company's responsibility for society and employees is considered at the social level of CSR (Jamali 2008; Shnayder and Van Rijnany 2018). CSR is considered a business practice to meet and balance stakeholders' interests (Maclagan 2008), so that the companies know and consider the specific features and demand of stakeholders (Turner et al. 2019).

The environmental field refers to the responsibility to understand the essential role a company acts to achieve sustainable development and take care of the environment in consideration of its effects, especially climate change (Lu et al. 2019; Marí-Farinós 2017; Taliento et al. 2019).

A number of researches about CSR demonstrated the relationship between corporate environmental, social, and economic performance (Brogi and Lagasio 2019; Chowdhury et al. 2019; Taliento et al. 2019).

The studies have concluded that the three factors are interconnected, and the collaboration of the factors assures long-term sustainability. As well, they are related to planning mechanisms and the management's control that create value for stakeholders, improve relationships between stakeholders and companies in the long run, and protect the expectations and interests of stakeholders (Cupertino et al. 2019; Jamali 2008; Pirnea et al. 2011). Via the development of CSR practice, socio-economic goals are coordinated, and corporate and social interests are balanced (Bagire et al., 2011, Degie and Kebede 2019).

2.3 ESG (Environmental, Social, and Governance)

2.3.1 ESG's Historical Background and Development of Concept

ESG refers to the environment, society, and governance structure as 'non-financial factors' and traditional financial factors in evaluating corporate value. The Korea Exchange defined ESG as "a concept that encompasses factors related to the environment, society, and governance structure that can affect a company's ability to implement strategies and increase its value." (KRX, 2021). MSCI, one of the leading ESG evaluators, defined "ESG investment as a term that is often used synonymously with sustainable investment, social responsibility investment, mission-related investment, or screening" (MSCI, 2021).

In 2005, the term ESG officially first appeared at the "Who Cares win" meeting involving investors, analysts, and government agencies (Kim and Park, 2021) nearly 70 years after Bowen's definition. ESG is not considered an option for companies but a crucial management strategy that must be carried out to attract investment from pension funds or large asset managers. As the scope of stakeholders surrounding companies is more comprehensive than in the past, demands for ESG management are gradually increasing (Berman et al., 1999). The demands are breaking away from the activity of satisfying only external stakeholders in the past shareholder-centered and now expanding to demand improved interest and relationships (Mohin, 2012).

Moreover, UNEP FI (United Nations Environmental Programme Finance Initiative) collaborated with global law firm Freshfields Bruckhaus Deringer to publish a legal interpretation report on the baseline relationship between ESG and investment. (UNEP, 2005) The report began discussions in earnest on how to internalize environmental, social, and governance elements into investment strategies. It served as an opportunity to establish a global norm that not only was it justifiable to include ESG elements in the investment standard, but also the trustee's obligation to invest. This was soon accepted as a global norm and served as an opportunity to revitalize ESG investment, especially institutional investors (Lee, 2020a).

In 2006, six principles were announced as the UN Principle of Responsible Investment, and 1,750 major global investment companies, including BlackRock, the world's largest asset management company, have signed to abide by the principle (UN

PRI, 2006). Since then, the PRI has been promised to begin in earnest 15 years later in 2020 so that the invested companies can adapt to ESG investment in the future, reaching today. Coincidentally, ESG management and investment became more of a hot topic in line with the Corona-19 Pandemic.

2.4 Difference between CSR and ESG in Business Strategy

Putting together previous studies so far, first, CSR and ESG differ significantly in terms of historical origin. CSR can be seen that its origin stems from market failure in the 19th century. The concept of CSR was first academically organized in Bowen's 1953 book Social Responsibility of the Businessman. Bowen defined CSR as a duty for companies to pursue and make appropriate decisions or actions (Bowen, 1953). On the other hand, ESG is a term that first appeared at the 2005 'Who cares win' meeting and report. It is no exaggeration to say that there has been a fragmentary approach to ESG components before, but it has been integrated and interpreted from an investor's point of view since 2005.

CSR and ESG also show differences in their motives and roles. As mentioned earlier in terms of historical background, CSR is the result of market failure. Therefore, CSR is to achieve the 'civic role' of a company, even though CSR is recognized as an expense that degrades the company's economic performance (Zerbini, 2017). In other words, there is a context that CSR activities adversely affect corporate performance regardless of behavioral motivation. On the other hand, it is reasonable for ESG to see it as a response to investors' interest and concern about whether a company is a "sustainable" company rather than a response to market failure. In other words, it shows external stakeholders how a company manages 'risk' that can undermine the company's sustainability.

At first glance, CSR has so many similarities that it looks like ESG. It may be because the most representative GRI guidelines suggest economy, environment, and society as evaluation criteria. This is similar to the ESG elements such as environment, society, and governance structure (GRI, 2013). In particular, CSR and ESG show something in common in that companies worry about social, environmental, and ethical issues. The EU Commission defines CSR as a 'company's responsibility for its impact on society.' The fact that companies fulfill their social responsibilities means that they comply with related laws and regulations by considering social, environmental, ethical, consumer, and human rights issues together in corporate strategy and management. (NPS, 2021)

However, there is a fundamental difference between CSR and ESG. According to Cho Shin, a professor at Yonsei University Graduate School of Information, CSR, unlike ESG, focuses on corporate behavior, not investors. In other words, investors do not ask or impose specific duties on companies to do CSR activities. However, stakeholders such as environmental groups, consumer groups, and unions use the word "corporate citizens" to give companies personality and social responsibility.

CSR emphasizes activities that meet social expectations that companies want to become good corporate citizens, philanthropic activities. CSR emphasizes its activities as a good company even while consuming certain ‘costs,’ which are opposed to ‘maximizing operating profit,’ which is the essence of a company in the capital market. On the other hand, ESG encourages investors to do good to companies for their long-term returns.

2.5 CSR and ESG in Financial Industry

ESG is drawing attention recently because ESG is emerging as a significant factor influencing the long-term sustainability of companies and society beyond corporate social responsibility or creating shared values. However, for the economy to grow and develop in the long term, economic actors such as companies in the real economy must carry out economic activities that promote sustainability in consideration of ESG factors, and financial activities are needed to support them.

In addition, financial activities essentially have the property of pursuing 'financial performance', so this also needs to be considered. (KPMG, 2021) That is, sustainable finance promotes the sustainability of the financial industry and each economic entity by considering financial performance and non-financial performance such as ESG.

In particular, from the perspective of stakeholders, financial companies affect numerous economic actors and are connected to the entire national economy. Therefore, it is very important to look into ESG management in the financial industry as individual financial companies' management policies and management performance can affect not only financial companies but also customers and economic actors.

Chapter 3. Methodology

3.1 Case Selection

3.1.1 The Overview of Shinhan Financial Group

Shinhan Financial Group was founded on September 1, 2001, by the stock transfer method of Shinhan Bank, Shinhan Securities, Shinhan Capital, and Shinhan BNP Paribas Asset Management (Shinhan Financial Group, 2021). It is the second-largest financial holding company in Korea after KB Financial Group (24.6 trillion won), with 16.6 trillion won in market capitalization (As of December 31, 2020, KRX). Total assets amounted to 605 trillion won, and net income amounted to 3.41 trillion won in 2020. It has entered 20 countries abroad and has a total number of employees of 30,530 (Shinhan Financial Group, 2021). There are 48 subsidiaries, including Shinhan Bank. The table and figure below show other details and global expansion status.

Corporate Name	Shinhan Financial Group	No. of Customer	19,141 thousand
CEO	Cho Yong-byoung	No. of Employee	30,530 persons
Founded	Sep 1, 2001	Global Network	20 countries
Total Asset	605 KRW trillion	Major Subsidiar-ies	Shinhan Bank
Net Income	3.41 KRW trillion		Shinhan Card
Market Capital	16.6 KRW trillion		Shinhan Life

Table 1: Overview of Shinhan Financial Group

Figure 2: Global Network of Shinhan Financial Group (Shinhan Financial Group, 2021)

3.1.2 The Milestone of Shinhan Financial Group's CSR and ESG

Shinhan Financial Group released its CSR report in 2005 for the first time among Korean financial holding companies. Since then, it has taken an unrivaled step in CSR and ESG management, including being incorporated into DJSI for the first time in Korea in 2013 and establishing a CSR committee on the board of directors for the first time in Korea. The table below shows the significant moves related to CSR and ESG of the financial holding company by year.

Year	Contents
2005	Shinhan Bank released a CSR report
2008	Joined UN Global Compact and the UNEP FI
2009	Shinhan Financial Group released a CSR report
2010	Established a Green Management System
2013	Included in the DJSI World
2014	Established group CSR strategy
2015	Installed CSR committee
2017	Established 2020 CSR strategy
2019	Established group's Climate Action Principles
2020	Announced Zero Carbon Drive

Table 2: The Milestone of Shinhan Financial Group's CSR and ESG

3.2 Data Collection

This thesis compares Shinhan Financial Group's CSR and ESG management report from 2005 to 2020. Furthermore, the paper conducts in-depth research through interviews with a Shinhan Financial Group's ESG planning team employee. In order to ensure the integrity of the interview contents, it is premised that the name and position of the interviewee will not be disclosed. In addition, degrees and academic papers on ESG and CSR management in the financial industry, policy data of related institutions, and books were referenced.

Chapter 4. Finding and Discussion

4.1 Structure of Board of Directors

Shinhan Financial Group did not have a separate CSR sub-committee on the board of directors of the financial holding company until the year of 2014 (Shinhan Bank 2005; 2006; 2008; Shinhan Financial Group 2009; 2010; 2011; 2012; 2013; 2014). The 'Group Social Contribution Committee,' a CSR strategic consultative body composed of CEOs of affiliates, discussed issues and policies related to social responsibility management. Therefore, the direction of social responsibility management may be determined by the internal circumstances of Shinhan Financial

Group rather than the position of external stakeholders.

This can be confirmed by Shinhan Financial Group's motivation to establish a social responsibility management committee as a subcommittee within the board of directors of the financial holding company in 2015. Shinhan Financial Group said in its 2014 annual social responsibility management report, "To make decisions on the group's social responsibility management more objective and rational perspective, we have decided to establish a social responsibility management committee under the top decision-making body, the Financial Group's board of directors." (Shinhan Financial Group, 2014; 2015).

It is to promote the status of the ESG Strategy Committee compared to the existing consultative body between CEOs. Moreover, it allows the financial group to establish a unified ESG strategy efficiently and further strengthen its driving force. This change in the board structure of financial holding companies shows a similar pattern in the changes in the organization in charge to be dealt with next.

In 2017, the remuneration committee, a subcommittee directly under the board of directors of Shinhan Financial Group, has evaluated its CEOs of subsidiaries by the elements of the ESG sustainable management system for the first time in Korea. (Shinhan Financial Group, 2017; 2018). Accordingly, CEOs and affiliates directly reported to the board of directors of the holding company how they achieved their ESG goals by conducting ESG management in detail. Based on the results, remuneration and performance were evaluated. Therefore, CEOs and affiliates actively promote ESG strategies than before, so this policy has contributed to receiving higher ESG ratings than other competing financial holding companies in Korea.

4.2 Department in Charge

According to Shinhan Bank's social responsibility report published in 2005, Shinhan Financial Group initially operated a separate planning office, personnel office, employee satisfaction center, customer satisfaction center, and compliance audit office under respective vice presidents. It was separated in terms of functional aspect and performed its function, and it can act as a factor that will cause the silo effect of the organization. Initially, silos are warehouses for grain storage in North America (Cromity and De Stricker, 2011), but silos within organizations mean a kind of barrier to communication and information exchange. It is known that it separates members from each other, reduces efficiency, and negatively affects organizational performance. (Sessoms, 2020)

Shinhan Financial Group integrated its CSR department, separated into each affiliate through its reorganization in 2009, under the direct control of the financial holding company. According to the 2009 Shinhan Financial Group's Social Responsibility Report, "In order to systematically promote socially responsible management, the holding company's strategic planning team establishes strategies and tasks for each economic, social, environmental, and common competency sector. These strategies and tasks are implemented by the social and cultural team of the holding company and the department in charge of social responsibility management of each group company." In other words, the holding company's strategic planning team established social responsibility management planning. The holding company's social culture team implemented the strategies. Each affiliate's office was in charge of its own social responsibility management planning and promotion of respective subsidiaries.

This is to operate a relatively integrated organization compared to the past. However, it operates the planning and executing department separately, and each department still belongs to different business sectors. Due to the silo effect, this can lead to inefficiency in communication and information flow.

After that, in March 2015, Social Responsibility Management Committee (currently ESG Strategy Committee) was established on the board of directors of the financial holding company as a sub-committee. Furthermore, the Financial Group launched the integrated department, social contribution team, with eight employees. The team oversees the planning and implementation of social responsibility management within the financial holding company and its subsidiaries. It is a more integrated way than in the past.

In 2018, The financial group renamed the social responsibility management committee to ESG Strategy Committee. The financial group's social contribution team was changed to ESG Planning Team, and the team's personnel was greatly expanded from 8 employees to 17 employees. In addition, the strategic planning team, which is in charge of setting the business strategies at the group level, and the ESG planning team were organized into the same division, the financial group strategy division. It allows the financial group to plan and conduct social responsibility management in a more integrated way. In other words, unlike the CSR period, the ESG strategy team was integrated and placed in the same business department as the financial group strategy planning team so that the financial group can substantially reflect ESG management in establishing the group's overall management strategy.

This internal integration can lead to a more synchronized process in establishing and implementing organizational strategies. (Cespedes, 1996, Kahn and Mentzer, 1996) Internal integration allows the company to perform a process that combines functions with departments within the company. (Flynn et al., 2010) Eventually, this will lead to improved performance in communication and practice. (Jacob et al., 2016)

Compared to other financial holding companies in Korea, only Shinhan Financial Group operates the integrated financial group strategy planning team and the ESG planning team at the division level. KB Financial Group and Hana Financial Group allocated ESG strategic teams to the public relations sector, while Woori Financial

Group assigned its ESG team to the management support sector. (As of Dec−Therefore, Shinhan Financial Group was able to quickly and efficiently reflect the ESG strategy in the group's overall strategy and raise the status of the ESG strategy team, which could have played a significant role in combining the group's management and ESG strategy. Figure 3 shows how the financial groups organize and operate the ESG management teams, respectively.

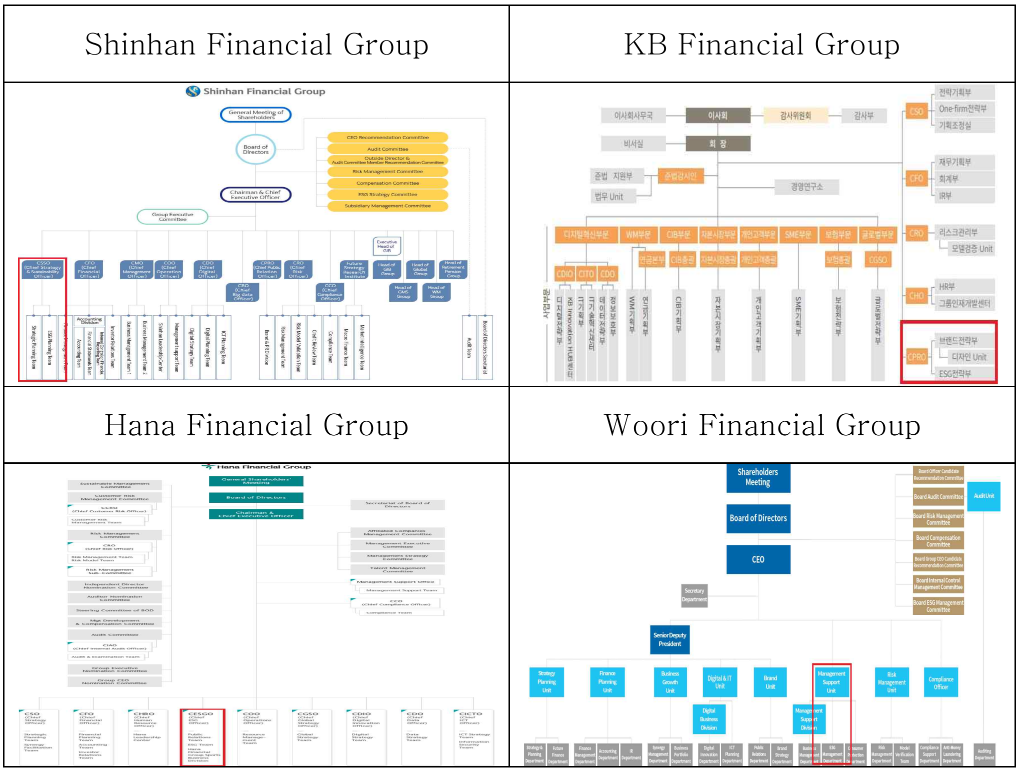

Figure 3: ESG organization of financial groups②

② Source: Each financial groups' web page and annual disclosures. See references for detail.

4.3 Operation of Investment Product

During the CSR management period, major financial products were composed of social contribution loans such as low-interest loans for small business owners and low-income families. In addition, green bonds funded eco-friendly industries and firms. Moreover, Shinhan bank evaluated environmental risks factors in loans to companies. In 2009, SRI (Socially Responsible Investment) funds were launched. The SRI Fund formed a portfolio by selecting companies with excellent eco-friendly performance and social contribution, mainly consumer goods and IT companies. (Shinhan Social Responsibility Report 2005; 2006; 2007; 2008; 2009;)

Non-financial risks, including environmental and social risks such as safety and supply chains, have been actively considered since 2015 when Shinhan Financial Group gradually adopted ESG elements to operation investment products (Shinhan Social Responsibility Report 2015; 2016). For example, investment and loan target companies' ethical management, relations with vendors, market reputation, and environmental pollution are evaluated and reflected in investment and loan screening. The unique feature in operating investment products is to ban investment in firms manufacturing, selling, distributing, and technology offering of weapons for the first time when selecting a fund investment target since 2015. This is similar to the European Pension Fund's ban on investment in Hanwha described in the introduction.

Since then, ESG fund products have been launched in earnest since 2017, and the investees have been organized to reflect the ESG evaluation of the invested companies included in the existing socially responsible investment fund. Among ESG–related products, the SOL U.S. S&P 500ESG ETF selected 314 stocks by screening under certain conditions ③ among U.S. S&P 500 companies. Although ESG Score was reflected, companies with low ESG Score accounted for a larger portion of the product than ESG Score because market capitalization is ahead of the ESG score.

Table 3 shows Top 10 firms' the ESG score and the weight of investees in the ESG–related product. The product's composition shows the gap between the proportion of investee and the ESG score of it. Considering the lower ESG score means the higher risk

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③ The index referred to S&P Dow Jones Indices. Excluding firms ① Weapons (producers, more than 25% shares), coal-fired power (more than 5% profit, power companies), and tobacco (production, more than 10% shares, more than 5% profit, distributors), ② Human Rights, Labor, Environment, and anti-corruption issues, ③ Companies exposed to risks such as economic crimes, corruption, fraud, illegal commercial activities, human rights/labor rights issues, and environmental disasters, ④ Ranking based on the S&P DJI ESG Score. The floating market capitalization determines the proportion.

of the companies, it is an investment product that contradicts the ESG concept introduced for investment risk management.

Ranking	Firm	Proportion	ESG Score
1	APPLE INC	9.09%	32
2	MICROSOFT	8.40%	60
3	ALPHABET INC	5.62%	47
4	Amazon.com Inc	4.86%	25
5	Tesla Inc	2.59%	28
6	NVIDIA	2.31%	74
7	JPMORGAN_CHASE	1.55%	40
8	UNITEDHEALTH_GROUP	1.48%	74
9	HOME_DEPOT	1.42%	37
10	PROCTER & GAMBLE CO	1.26%	58

Table 3: ESG rating and weight of Shinhan Group's ESG ETF (SOL ETF, 2021)

Even though the ESG-related product is screening firms based on the ESG score, the composition of the investment product is determined by the market capitalization. In response, a Shinhan Financial official said that they have no choice but to give weight to the market capitalization to follow the market index and average profits. Excluding disqualified firms based on the ESG rating is different from existing index investment products. However, putting weight on market capitalization is similar to existing products. Therefore, similarities and differences exist at the same time.

In conclusion, Shinhan Financial Group mainly operated financial products of social contribution characteristics such as low-interest loans to eco-friendly companies, low-income households, and small business owners during the CSR management period. Since 2015, when ESG management concepts were introduced, Shinhan Financial Group excluded companies related to weapons of mass destruction from investment in consideration of ESG factors.

Furthermore, expanded ESG factors have been considered for investment screening since 2017. As a result, Shinhan Financial Group launched SOL US S&P 500ESG ETF for the first time in Korea. ESG-related products are different from existing CSR financial products in terms of excluding firms from investment in consideration of ESG factors but considering the share of market capitalization in the composition of invested companies is similar to existing financial products. Therefore, financial products in both CSR and ESG share similarities and differences at the same time.

Chapter 5. Summary and Conclusion

5.1 Summary

This paper studied the differences between ESG management, which has recently been emphasized and existing CSR management. In particular, the case of Shinhan Financial Group was investigated from the perspective of the structure of the board of directors, the operation of the organization in charge, and the design and operation of related investment products. As a result, there was no dedicated subcommittee in the structure of the board of directors, but since 2014, an integrated dedicated subcommittee has been formed to supervise ESG management. In addition, the board's remuneration evaluation subcommittee reflected ESG management performance when evaluating affiliates and executives since 2017.

In the case of ESG and CSR management organizations, CSR management was promoted independently in each sector, including personnel, strategy, and legal affairs, in the early period of CSR management. In 2009, an integrated CSR planning team was established in financial holding companies, and in 2018, unlike other financial holding companies, such as KB, Woori, and Hana, the group's management strategy team and ESG strategy team were deployed and operated together in the financial group's management strategy division.

Finally, in designing and operating ESG-related investment products, investment products were organized in consideration of ESG evaluation indicators, but they also showed similarities to existing investment products, such as prioritizing market capitalization. As a result of studying the difference between ESG and CSR management of Shinhan Financial Group, the implications are as follows.

5.2 Theoretical Implication

The board of directors has a significant influence on the success or failure of a company (García-Sánchez et al., 2018). The board oversees corporate strategies such as corporate culture and governance and approves major decisions (Basel Committee, 2015). Therefore, looking into the structure of the board of directors and organizational operations gives critical implications.

Shinhan Financial Group has reflected ESG management's performance in evaluating CEOs, executives, and subsidiaries at a remuneration committee within the board of directors since 2017 (Shinhan Financial Group, 2017). Future studies may find meaningful discoveries if future research is conducted to compare firms that do not take ESG management performance into the evaluation of CEO and subsidiaries to the firms that reflect ESG performance to the evaluation of CEOs and subsidiaries.

Furthermore, several previous studies empirically conducted the relationship between the characteristics of the board of directors and the CSR performance of a company (Rao et al., 2012; Zhang, 2012; Post et al., 2015; Seto-Pamies, 2015; Kyaw et al., 2017). Therefore, empirical studies exploring the relationship between various characteristics (Gender diversity, size, activity, independence, and ESG committee) of the board of directors and ESG management performance will also provide meaningful implications.

As previously stated, each financial holding company organizes and operates ESG management organizations in a different business division, respectively. For example, Shinhan Financial Group organized ESG management organizations in the group strategy sector, KB Financial Group and Hana Financial Group in the public relations sector, and Woori Financial Group in the management support sector. Therefore, conducting empirical research on how ESG management organization and the form of operation relate to ESG management performance can be meaningful for future research.

Earlier, there was a gap between ESG scores and proportions of investees in the composition of ESG-related products because market capitalization was ahead of ESG scores in the composition. It is necessary to study what investment results would be compared to when they were not if ESG scores were prior to market capitalization.

5.3 Managerial Implication

As announced earlier, KB Financial Group operated ESG management teams in the brand sector and financial holding companies in different business sectors. Shinhan Financial Group operated the organization in charge of the CSR management period separately from each business sector, including personnel, planning, and management support, but gradually integrated it into strategy-related organizations. Finally, the organization was integrated and operated in the financial holding's strategy sector during the ESG management stage. Therefore, it is possible to consider integrating and operating ESG management organizations in the strategy division. This can only be seen in Shinhan Financial Group.

This shows each financial holding company's perspective on ESG management. Therefore, companies must determine which business division of ESG management organization will belong to, such as management support, strategy, and promotion, based on the ESG management perspective of the company.

In addition, lessons can be learned on how to promote ESG management through the organization of the board of directors. Shinhan Financial Group reflected ESG management performance in evaluating executives and subsidiaries at the board's remuneration evaluation committee. Through this, ESG management could have been promoted more practically. Therefore, it is necessary to consider reorganizing the board of directors.

When the financial industry develops ESG-related financial products, it is also an important consideration to which factor of ESG evaluation indicators and market capitalization will be weighted. As suggested earlier, the current product puts market capitalization ahead of ESG evaluation indicators. The financial industry can develop investment products that ESG evaluation indicators may take precedence over market capitalization in the future.

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국문초록

남궁 진
전략 및 국제경영전공
경영대학원
서울대학교

코로나 19팬데믹 유행과 함께 경영학에서는 ESG 경영에 대한 논의가 활발하다. ESG 경영은 기업가치평가에 있어 재무적 요소뿐만 아니라 환경, 사회, 지배구조 같은 비재무적 요소 또한 중요하다는 것이다. CSR과 ESG 경영의 배경과 개념적 차이 연구는 활발하나 금융산업에서 경영전략 상에서의 차이에 대한 연구는 아직 초기 단계이다. 이 연구는 신한금융그룹의 사례연구를 통해 금융산업에서 CSR과 ESG의 경영전략 차이를 알아보고자 한다. 신한금융그룹의 사회책임보고서를 근거로 CSR, ESG 경영 도입기, ESG 경영 시기로 구분했다. CSR과 ESG는 이사회 구조 및 운영, 담당 조직 편성, 투자상품운용에 있어 차이를 보인다. 먼저 이사회는 전담 소위원회가 설치되었고 CEO와 계열사 성과평가에 ESG 경영 추진 실적을 반영했다. 담당 조직은 각 부문에 분리되어 있던 조직을 통합하여 그룹 전략부문에 편성했다. 이는 신한금융지주에서만 볼 수 있는 사례이다. 마지막으로 투자상품은 여신, SRI 펀드 투자에서 ESG 경영이 도입되며 ESG 관련 상품에는 스크리닝을 통해 상품을 개발하기 시작했다. 하지만 일부 상품의 경우 스크리닝을 했음에도 ESG 등급보다 시가총액에 비중을 두어 기존 인덱스 상품과 비슷한 측면도 발견되었다. 향후 ESG 담당 조직 운영에 있어 ESG 경영 부서를 통합하는 것과 분리하는 것이 기업 ESG 성과에 미치는 영향을

연구하거나 ESG 경영 부서를 전략부문에 편성하는 것과 홍보부문 혹은 지원부문에 배치하는 것을 변수로 하여 기업의 ESG 경영 성과와의 상관관계를 연구하는 것도 필요하다고 생각한다. 더욱이 CEO와 계열사 평가에 ESG 추진실적 반영 여부에 따른 기업의 ESG 성과를 연구하는 것도 의미가 있을 것이다. 마지막으로 이사회의 ESG 위원회 특성(규모, 다양성, 독립성, 활동)과 ESG 경영 성과 간의 관계를 연구한다면 보다 의미 있는 연구가 될 것으로 생각된다.