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FOCAL POINT ON ENVIRONMENTAL, SOCIAL AND GOVERNANCE INITIATIVES

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MAKING UP FOR LOST TIME

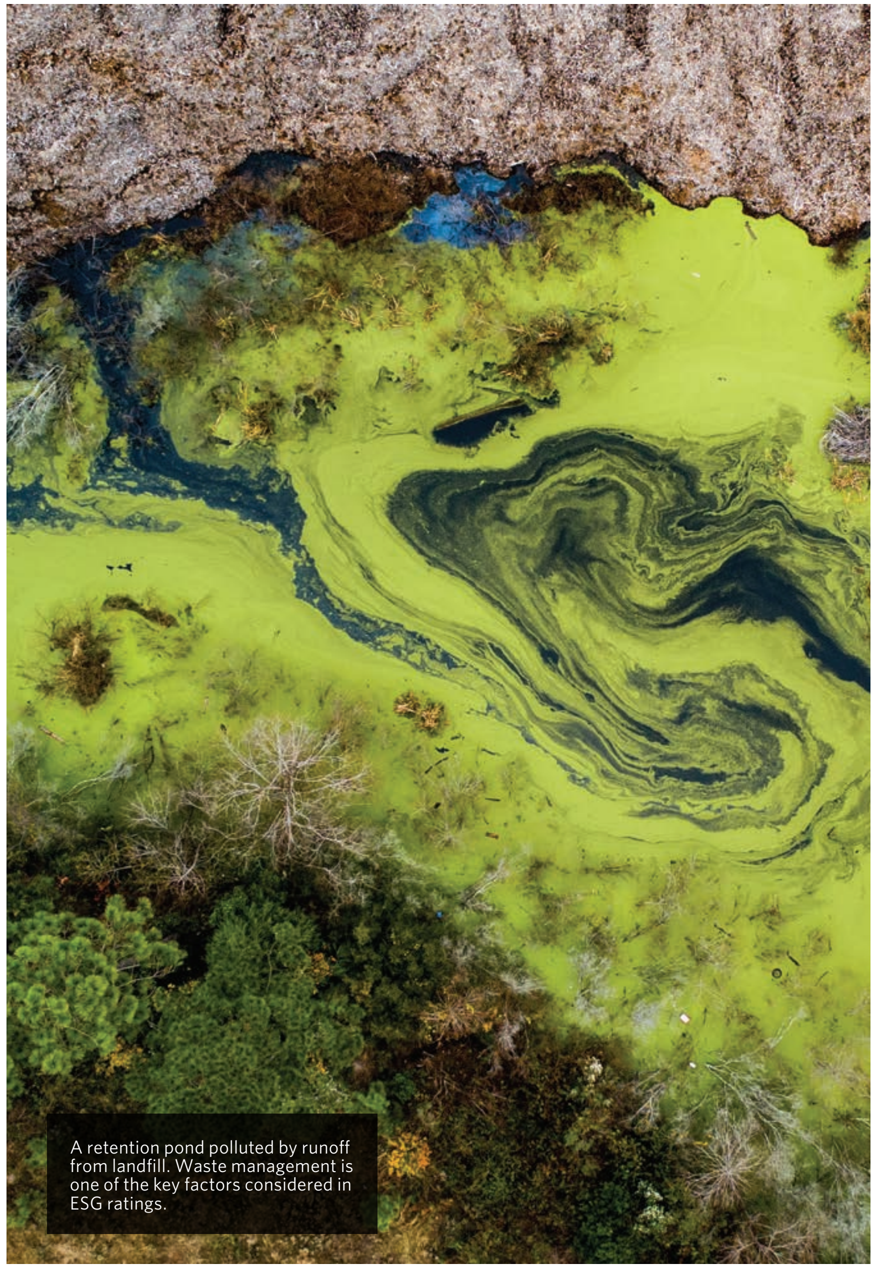
South Korea is working hard to set standards in A WILD ESG RATINGS MARKETPLACE.

"In terms of ESG management, South Korea was a late follower," says Jay Hyuk Rhee, a professor at the school of business at Korea University in Seoul, "But, now — most, if not all, South Korean corporations take ESG management very seriously."

Environmental, Social, and Governance (ESG) ratings are being increasingly taken into account, not only by people seeking to make socially conscious investment decisions, but also by consumers and prospective employees.

ESG ratings provide information about a company's sustainability status based on three categories: the environment, social issues, and governance. This includes factors such as climate policies, waste production, energy consumption, workplace conditions, diversity and inclusion, and business ethics — elements that have a financial impact, but are not usually captured in a typical financial analysis.

While South Korea was late to the table — only introducing incentives to adopt ESG global standards in January 2021, following pressure from both consumers and Western companies they supplied goods to — it has created guidelines to gain a more objective and transparent view of these scores that inform investments across assets valued at more than US$37.8 trillion.



A retention pond polluted by runoff from landfill. Waste management is one of the key factors considered in ESG ratings.

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ESG ratings calculate a company's score based on a set of **ENVIRONMENTAL, SOCIAL, AND GOVERNANCE** indicators.

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There are currently **MORE THAN 140 COMPANIES** that calculate ESG ratings.

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THE ESG RATINGS LANDSCAPE

Worldwide, there are at least 140 companies that calculate ESG ratings, and this number is likely to grow, with the ESG data market projected to exceed US$1.3 billion during 2022. These ratings are largely unregulated, and each provider has their own model for calculating them, however, the specific indicators used typically remain concealed in order for companies to protect their intellectual property. This situation often results in wildly different scores for the same company based solely on the ESG rating provider chosen.

"It's very difficult to achieve a consistent result across different ESG rating agencies," affirms Rhee. And without consistency and objective indicators of where firms can improve their ESG practices, it's difficult for companies to make changes for the better.

Rhee's colleague, Yong Sik Ok is an environmental scientist and the programme director of the Association of Pacific Rim Universities (APRU) Sustainable Waste Management Program, who is also based at Korea University. This lack of transparency and consistency prompted Rhee, Ok and a team of experts — including representatives from the Korea Productivity Center and the Korea Society of Strategic Management, in collaboration with South Korea's Ministry of Trade, Industry and Energy (MOTIE) — to develop a free to access, open, transparent representation from 13 major South Korean and global evaluation and information disclosure agencies. They called this the K-ESG guidelines.

"They reflect the core issues of global ESG standards," says Rhee. "Corporations can see their current status and examine their progress in terms of KPIs including such things as carbon emissions and plastic waste reduction."

PLASTIC WASHING

However, there's always a way for companies to game the system, especially when there are billions of investment dollars at stake. Greenwashing refers to the promotion of misleading information suggesting that products or investments are more environmentally sound or "green" than they really are.

In the case of ESG ratings, greenwashing, or perhaps most aptly, 'plastic washing' is rampant. "Plastic waste is generated in high amounts everywhere, and greenwashing is done by many corporations for plastic waste," says Ok. He cites a major soft drink manufacturer as an example — many millions of dollars were spent promoting the claim that their bottles are made of marine plastic waste, but at the same time it was never said that the company is among the world's biggest plastic polluters.

It's a problem that is set to grow — globally, approximately 400 million tonnes of plastic waste is produced every year, if nothing changes this is expected to double by 2040. "While the United Nations declared new plastic-related regulations to take effect in 2024, it's essential to standardize these regulations globally," says Ok.

As ESG ratings are largely unregulated, and are typically based on companies' public-facing ESG disclosures, the potential for greenwashing or plastic-washing is high. Regulatory groups worldwide, such as the UK's Financial Conduct Authority (FCA) and the International Regulatory Strategy Group (IRSG), and the European Commission are now looking into the ESG ratings market and whether policy may be introduced.

South Korea has the opportunity to be a leader in this space. "In terms of ESG management, South Korea has always followed the rules set by the EU and the US. Through K-ESG, we hope to become a rule-setter," says Rhee. ■

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ESG assets are projected to exceed **US$50 TRILLION** by 2025.

Jay Hyuk Rhee is the co-president of the **INTERNATIONAL ESG ASSOCIATION**.

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