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**“Big Business in Asia and its Impact on Economy and Society:  
The Cases of Ayala and Samsung”**

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Dkfm. Reinhard-Christoph Endres

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# CONTENTS

<b>1. Introduction</b> .....	1
1.1. Research Question.....	1
1.2. Outline .....	1
1.3. Remarks .....	2
<b>2. State of the Art</b> .....	3
<b>3. Theory and Method</b> .....	5
3.1. Definition of “Big Business” .....	5
3.1.1. The Market .....	5
3.1.2. The Firm .....	5
3.1.3. The Large Enterprise .....	7
3.1.4. The Conglomerate .....	10
3.1.5. The Family Firm .....	10
3.1.6. Goals .....	11
3.2. Socio-Economic Impact .....	14
3.2.1. Capacity Building .....	15
3.2.2. Economic Growth .....	16
3.2.3. Education .....	16
3.2.4. Enterprise Development .....	16
3.2.5. Environmental Sustainability .....	17
3.2.6. Governance .....	17
3.2.7. Human Rights .....	18
3.2.8. Poverty Alleviation .....	18
3.2.9. Public Health .....	19
3.2.10. Social Stability .....	19
<b>4. Facts and Figures</b> .....	20
4.1. The Market .....	20
4.1.1. Philippines .....	20
4.1.2. South Korea .....	22
4.2. The Firm .....	25
4.2.1. Ayala Corporation in the Philippines .....	25
4.2.2. Samsung Group in South Korea .....	30
4.3. Socio-Economic Impact .....	37

4.3.1. Capacity Building .....	37
Ayala .....	37
Samsung .....	38
4.3.2. Economic Growth .....	40
Ayala .....	40
Samsung .....	42
4.3.3. Education .....	43
Ayala .....	44
Samsung .....	46
4.3.4. Enterprise Development .....	48
Ayala .....	49
Samsung .....	51
4.3.5. Environmental Sustainability .....	54
Ayala .....	54
Samsung .....	56
4.3.6. Governance .....	59
Ayala .....	59
Samsung .....	62
4.3.7. Human Rights .....	65
Ayala .....	66
Samsung .....	67
4.3.8. Poverty Alleviation .....	69
Ayala .....	69
Samsung .....	72
4.3.9. Public Health .....	75
Ayala .....	75
Samsung .....	77
4.3.10. Social Stability .....	80
Ayala .....	80
Samsung .....	81
<b>5. Conclusion .....</b>	<b>85</b>
<b>List of Abbreviations .....</b>	<b>95</b>
<b>Bibliography .....</b>	<b>96</b>
<b>Abstract .....</b>	<b>106</b>

# 1. INTRODUCTION

## 1.1. RESEARCH QUESTION

The research question is already in the title, i.e. What impacts do big enterprises in Asia have on the economy and society of the countries they operate in?

The word "big" itself conveys importance, influence, dominance, power, menace, relevance and opportunity. Because it is all these things, it is bound to make an impact on the economy, influencing GDP, foreign trade, stock market, job creation, competition, financial systems and so on. On the other hand, it is society which feels the heavy hand of big business, on employment opportunities, social stability, environmental impact, wealth creation, welfare and more.

The question is, therefore, to find out what constitutes big business, how it operates and, above all, which positive and negative impacts it has on its surrounding community. To this end two examples were chosen, one each in the Philippines and in South Korea. By analysing them in detail and subsequently comparing them - taking into consideration the different geographical, historical and cultural conditions - the aim is that others can draw a conclusion as to which actions and measures have overall positive impacts and should be emulated, and where are the pitfalls and negative impacts which should be avoided.

## 1.2. OUTLINE

To be able to answer the research question one has first to define and measure the size of the *market* (or country) by establishing certain economic indicators, as a certain market potential is a precondition for business to become big. Then one has to set down criteria for the *business firm*, including its concept and strategy. Following this, it is necessary to define what makes a firm dominant, how to become a *large enterprise*, e.g. through resource allocation, erection of entry barriers, gaining competitive advantage, exercising political power, and integrating horizontally and vertically. Big business in Asia is, in most cases, a *conglomerate*, and often also a *family firm*, so the features of these have to be portrayed as well.

Once it is clear what characterises "big business", it is necessary to clarify its socio-economic impacts. For this purpose, the framework "Measuring Impact" (2008), developed by WBCSD (World Business Council for Sustainable Development) was chosen which depicts ten areas of particular concern:

1. Capacity Building
2. Economic Growth
3. Education
4. Enterprise Development
5. Environmental Sustainability
6. Governance
7. Human Rights

- 8. Poverty Alleviation
- 9. Public Health
- 10. Social Stability

Once the method to define big business and its socio-economic impacts is determined, it is time to investigate - following the path of the criteria established in the theoretical part - what happened in the two case studies which are the subject of this paper. Again, first the market in the Philippines and in South Korea is analysed according to the economic indicators. Then the firms Ayala Corporation (Philippines) and Samsung Group (South Korea) are scrutinised under the aspects of concept and strategy, conglomerate, family firm, large enterprise and goals. With this a comprehensive picture is created as to the market the two giant companies operate in, their size and fields of activity, their development, and their management styles and strategies.

Given this background, the paper now describes in detail which socio-economic impacts the two groups have in the above ten areas, following the guidance given by WBCSD. In the final analysis the approach they take in impacting their economies and communities will be compared and evaluated. The aim is to answer the question where Ayala's and Samsung's activities have positive or negative impacts, why they follow this or that course of action, and whether their "triple bottom line" of financial, social and environmental concerns is aligned.

### 1.3. REMARKS

1. The time frame chosen is in principle from the global financial crisis in 2008 until the end of 2016. Special emphasis is placed on the years 2013 to 2015, as for this period most figures are available, reviewed and reliable. The newest developments like the new administration of president Duterte in the Philippines, or the impeachment of president Park in Korea, or the detention of Samsung's Lee Jae-young are not considered as they are too recent and their impact on the respective economy and society cannot yet be judged.
2. Furthermore, although Samsung operates worldwide, and the Ayala Corporation in the wider Asian region, the areas under observation were restricted to the home countries as only in this way can the "impacts" be properly assessed and compared.
3. Whenever the term "Korea" is used it refers to South Korea.
4. To make it easier to understand the magnitude or significance of monetary numbers mentioned in this paper, they are converted into US Dollars (\$) instead of quoting them in Philippine pesos (PHP) or Korean won (KRW). The year-end exchange rates used for this purpose are (per 1 US Dollar):

	2011	2012	2013	2014	2015	2016
KRW	1.158,10	1.065,30	1.055,80	1.092,00	1.176,10	1.207,30
PHP	43,80	41,04	44,40	44,48	46,93	49,61

## 2. STATE OF THE ART

To define "big business" one has to define first the market it operates in, then the concept and strategy of the firm, what it takes to become big and which forms it can assume.

As to the *market*, certain economic indicators have to be laid down which give a comprehensive overall picture of an economy and are suitable for comparisons. As "The Economist" regularly issues concise books dealing with economic concepts, the volume "Guide to Economic Indicators: Making Sense of Economics" (1997) was chosen for this purpose.

Arthur A. Thompson's seminal work "Economics of the Firm: Theory and Practice" is a well structured and detailed textbook for MBA and undergraduate business majors to better understand microeconomic theory and competitive market economics. It analyses the behaviour of firms, competitive markets and its primary unit: the *business firm*. This is observed from the inside as to production, cost, profitability and competitive strategy, and from the outside as to impacts of consumer demand, competition, market structure and resource allocation. Dr. Thompson (same as his co-author John P. Formby with whom he composed, in 1993, the already 6th edition of the above book) is professor at the University of Alabama, specialised in business strategy, competition and market analysis.

As to the *large enterprise*, Alfred Chandler is quoted. He was the dean of American business historians who more or less invented the history of the big corporation. He argued that industries which drove economic growth in the 20th century were quickly dominated by a small number of vertically integrated firms that nevertheless continued to grow and innovate. These companies were successful because they were able to make huge investments in management and production.

When it comes to the tools used by large enterprise to become dominant, David I. Rosenbaum's book "Market Dominance: How Firms Gain, Hold or Lose It and the Impact of Economic Performance" (1998) gives valuable insights. Dr. Rosenbaum is professor of economics at the University of Nebraska and has nearly fifty publications to his name covering topics in industrial organisation, labour economics and forensic economics.

The description of the *family firm* is based in great part on the supplement "To have and to hold" in "The Economist" of April 18th 2015. It is a special report about family companies written by Adrian Woolridge which analyses the typology, upsides and downsides of family business, and includes an extensive chapter on 'Asian values'.

Besides profit, revenue, market share, long-terms prospects, and growth and diversification, *corporate social responsibility* (CSR) plays an ever more important role as one of the goals successful companies should pursue. CSR is also behind a great part of the socio-economic impacts which are the main subject of this paper. Susan Benn's and Dianne Bolton's "Key Concepts in Corporate Social Responsibility" (2011) list in detail all aspects which constitute CSR, culminating in the 'Triple Bottom Line' of financial, social and environmental gains.

When it comes to *socio-economic impacts* themselves, a perfect guide is provided by WBCSD (=World Business Council for Sustainable Development) and published under [www.wbcsd.org](http://www.wbcsd.org). WBCSD, based in Geneva/Switzerland, brings together some 200 international companies in a shared commitment to sustainable development through economic growth, ecological balance and social progress. Members are drawn from more than 30 countries, representing all major business sectors with a combined revenue of USD seven trillion. The council uses also the input of 60 national and regional business councils, most of them based in developing countries. WBCSD has produced "Measuring Impact: Framework Methodology" (2008) in order to help companies articulate their case for managing socio-economic impact, to explain essential concepts and theory, and to provide a set of tools selected according to two criteria: First, these tools focus on socio-economic impacts, thereby moving beyond the more established environmental impact only. And second, they have been developed by business and for business, to be actively used by companies.

As to the empirical part of this paper, the first task is to analyse the *market* in the Philippines and Korea by applying economic indicators. The main reference for these are statistics of World Bank and OECD, and - where pure numbers are concerned - the websites [www.focus-economics.com](http://www.focus-economics.com) and [www.economywatch.com](http://www.economywatch.com). As to the Philippines, the Central Bank's Annual Report 2015, and as to Korea, Yonhap News provide valuable additions.

Regarding a description of the *firm* "Ayala Corporation", the principal source is Ayala's Annual Report 2014, complemented by E.V. Batalla's "Zaibatsu Development in the Philippines: The Ayala Model" (1999) and some newspaper articles. In the case of "Samsung Group", especially when it comes to conglomerate or *chaebol*, a host of literature is available, and information is extracted mainly from Korean authors such as Jwa Sung-hee (2002 and 2004), Choe Sang-hun (1994), Kim Eun-mee (1997), Kang Myung-hun (1996), Khanna, Song and Lee (2011), and Murillo and Sung (2013). (See Bibliography)

When it comes to the ten *socio-economic impacts* highlighted by WBCSD, the most detailed accounts can be found in the companies' yearly Sustainability and CSR Reports which list, in usually over 100 pages, the efforts made in this sphere. They go beyond pure PR exercise as they follow GRI G4 rules (G4 Sustainability Reporting Guidelines, issued by the Global Sustainability Standards Board with seat in Boston/USA) and are certified by Independent Assurance Statements. In addition, great effort is made to corroborate these reports, or to contradict their claims, by consulting newspaper articles, NGO reports, critical interviews, lectures and diverse commentaries.

### 3. THEORY AND METHOD

#### 3.1. DEFINITION OF "BIG BUSINESS"

##### 3.1.1. THE MARKET

A precondition for large enterprise - or big business - is a potentially large market.

A **market** is the sum total of all buyers and sellers in an area under consideration, in this case countries. There is an "available" market (that of all the people in the area), a "minimum" market (or the market size where goods are sold without any marketing effort) and a "market potential" (or the maximum market size goods can be sold to with the biggest marketing effort). (www.economictimes.com)

To judge the size of the market - or country - and its potential, **economic indicators** have to be established. This can be done by national sources such as central statistic agencies or the appropriate government departments, or by international sources like OECD, IMF, World Bank and similar institutions. (The Economist 1997, p7)

The major economic indicators (which are not mutually exclusive) should then cover

- growth
- population and employment
- government fiscal policies
- consumers
- investment and savings
- balance of payments
- money and financial markets
- prices and wages

(The Economist 1997, p5)

The amount of data and their reliability can vary considerably from country to country and should often be taken with a pinch of salt. But once they cover all the above areas and are interpreted without bias they can give a fairly good picture about the shape of an economy at a certain point in time.

##### 3.1.2. THE FIRM

The principal actor in the market is the **business firm**. It is the main agent for the production and distribution of goods and services. It is at the centre of economic activity, building production units, investing in equipment and technology, developing new and better products, improving marketing methods and channels, minimising transaction costs and providing jobs



and income. The firm, therefore, plays a crucial role in the economic prosperity of society. So it is imperative to analyse the economics of the firm, i.e. its decisions, behaviour in the market place and reaction to consumer priorities, and to delve into the market-driven economy in more depth. (Thompson&Formby 1993, p32).

### **Concept of the Firm**

A firm can be a relatively small, owner-managed, single-business outfit with a limited market for its goods or services. Or it could be an enterprise with a large and differentiated portfolio of businesses, with a specialised management team and a huge number of employees and shareholders. Or something in between. According to Thompson&Formby (1993, p31) there are mainly six distinct types of firms:

1. A single-business company operating in only one stage of industry.
2. A partially integrated, single-business company operating in some stages of an industry.
- 3 A fully integrated, single-business company operating in all stages of an industry's production chain.
4. A dominant enterprise, concentrating on one major core business but also having a small portfolio of either related or unrelated businesses (usually constituting not more than one third of total turnover).
5. A narrowly diversified enterprise with a few business units of either related or unrelated industry or services.
6. A broadly diversified enterprise with a large number of business units active in multiple related or unrelated industries and services.

### **Strategy of a Firm**

To be successful in a market, or to be a failure, depends in part on good or bad market conditions but also to a large extent on a firm's strategy. Good management will try to seek opportunities early to have an edge over its competitors, to create competitive advantage. Efficient strategy will always try to act and influence rather than to react and follow changes in the market place, being they product, customer or technology oriented.

The shape of a firm's strategy can come in different forms:

- an ambition to become technological leaders while others prefer just to follow technological progress
- a disposition to take risks, or a more conservative risk-avoiding one
- an emphasis on product quality and customer service, or low price and quantity
- a position as wholesaler and retailer of goods or services supplied by others, or a maker and supplier of raw materials and intermediates to be sold to and marketed by others
- building well-known brand-oriented companies, or preferring to be a niche player at the fringe of the main market.

(Thompson&Formby 1993, pp29-30).

All the above described choices and decisions how to shape a firm's strategy are equally valid for the the small, owner-managed firm up to the biggest, diversified enterprise. As this paper, however, is concerned with big business, it will concentrate on the large enterprise.

### **3.1.3. THE LARGE ENTERPRISE**

The large enterprise - or Big Business - as described as the 6th type of firm in the previous chapter ("a broadly diversified enterprise with a large number of business units active in multiple related or unrelated industries and services") is the subject of this paper. And being "big" involves, by definition, market dominance and power.

According to A.D. Chandler, "all the industries in which manufacturers created large enterprises by adding a network of sales and purchase offices were from the start dominated by a very small number of such integrated enterprises. They were from the beginning oligopolistic, and in some cases monopolistic. They were never competitive in the traditional sense." (Nakagawa 1975, p135). Dynamic technological evolution typically leads to concentrated oligopolistic structures which then interact with a variety of smaller producers, suppliers and customers. The "oligopolistic core" leads where others will follow. (Giovanni Dosi in "Chandler" 1997, p466).

The main incentive for firms in a competitive market is to gain market share and to achieve a dominant position. Dominance means control, and with it the potential to increase profits.

There is no consensus among economists about the quality of market dominance. One part is of the opinion that a dominant market position enhances economic welfare. The idea is that firms become dominant because they are doing something better than their competitors such as offering a better product, or producing the same product more efficiently, or managing the company better, or some other improvements. Once market dominance is reached it is being maintained through constant efforts to remain more efficient than the competition. Others, however, think that efficiency is not necessarily required to achieve market dominance, it can be done by other means such as predatory actions and similar, thereby diminishing economic welfare. This form of dominance will have inefficient consequences, through maintaining constantly high prices, delaying or hindering the smooth exchange of resources and preventing the market entry by others. The impact of market dominance on economic welfare requires then different forms of reaction. In cases where dominance is caused by efficiency, the reliance on market forces is usually sufficient. However, when market power leads to a reduction of welfare, direct intervention may become necessary to reign in or disrupt such form of dominance. (Rosenbaum 1998, pp1-2).

But rather than discussing at this point the positive or negative effect of market dominance on economic welfare, it is useful to have a look at the tools and conditions through which increased market share and dominance are acquired in the first place:

### **Resource allocation**

Resources are often limited, and to get the right type and amount allocated to the optimum production process at the right time is the key to success, it is *efficient* resource allocation. But there are two dimensions: A static dimension which concentrates on a certain moment, and a dynamic dimension which works over time.

The static dimension of resource allocation often leads to inefficiencies, even if the economic process seems to hum along smoothly: monopolies often fall into this trap. Dynamic resource allocation, on the other hand, leads to dynamic efficiency. Chronic losses in one market or product lead to a shift of resources into others, and higher than expected profits will trigger additional input of resources. It is also the driver of technological progress. (Rosenbaum 1998, pp2-3).

### **Entry barriers**

Entry barriers aim to prevent or significantly delay the participation of other firms in a given market, thereby stemming the flow of resources where they would otherwise go. They allow to raise prices above competitive levels as other participants are absent. Actions to barrier entry by the competition can be either preemptive or retaliatory, or both. They can come in the form of price setting, marketing measures, control of resources, brand creation, strategic patenting and others, with the common aim to prevent the flow of new resources into the market.

Another entry barrier is sheer size. All the advantages which size gives (experience, technological progress, sales and purchasing networks, customer base, economies of scale, vertical integration etc.) cannot easily be overcome by smaller entrants. (Rosenbaum 1998, p251).

### **Competitive advantage**

A firm is at a competitive advantage whenever it is superior to its rivals in the marketplace. The aim is to convince customers that they will receive "superior quality", either by buying a good product/service at a lower price, or by getting a better product/service at a reasonable price.

Such an advantage can be gained by

- providing the best quality product or service
- giving superior customer service
- working at lower costs than competitors
- having chosen a better location
- building up a superior brand

or, in short, offering better quality for customer's money (good quality, good service, fair price).

There are three general strategies to gain competitive advantage:

1. Aiming to be the low-cost producer (low-cost leadership strategy)

2. Trying to offer a different product or service compared with the competition (differentiation strategy)
3. Concentrating only on a special part of the market instead of the whole market (niche strategy).

(Thompson&Formby 1993, pp426-427).

### **Political power**

Being big and dominant can also give an enterprise political power, mostly in three ways: First, it usually has considerable financial resources which can be applied quickly and at the right spot. Second, its large number of employees gives it the possibility to influence voting preferences. And third, being a big tax payer, it can apply leverage and play one region or city against the other to gain tax deductions or other advantages. (Shepherd 1990, p378).

### **Vertical integration**

Vertical integration is a strategy where a firm takes over several or all steps in the supply chain of its product or service. There can be forward integration (e.g. a bakery packages its bread and delivers it directly to the customer) or backward integration (e.g. the same bakery buys a wheat farm and mills its own flour), or both. (www.investopedia.com).

There are three main reasons why firms choose vertical integration:

1. To achieve efficiencies (savings in transaction costs, technical savings)
2. To avoid regulations and restrictions (escaping or reducing tax by internal transfer of goods, transfer pricing by invoicing within the supply chain)
3. To gain monopolistic advantages (entry barriers, vertical squeezes by setting the price of intermediate products very high and thereby "squeezing" the margin in the competition's end product)

(Shepherd 1990, pp365-368).

### **Horizontal integration**

Horizontal integration is the process of acquiring or merging with other companies in the same industry, preferably in the same production stage. The purpose is to increase company size and product differentiation, to achieve economies of scale, reduce competition and attain industry consolidation. Oligopolistic or even monopolistic structures are likely outcomes.

The ways to integrate horizontally are:

*Merger*, or the joining of two independent companies of similar size.

*Acquisition*, or the purchase of another company, or

*Hostile takeover* if the acquisition is done against the will of the other company

(www.strategicmanagementinsight.com)

### **3.1.4. THE CONGLOMERATE**

Conglomerates are an assembly of companies which operate quite independently but usually under the umbrella of centralised control. Big ones can comprise companies functioning in diverse and often unrelated sectors but often including the financial sector, and they may be in parts vertically or horizontally integrated. The companies in the group may obtain their own external capital through loans or share issues but capital can also flow within the group via loans, bank guarantees and shares, usually through a central holding company. The latter is often opaque and complex, giving rise to complaints from outside shareholders, tax authorities and the media. (Fernandez&Hogenboom 2007, p5)

Conglomerates usually have three main advantages:

1. Efficient allocation of resources (resulting in lower transfer costs compared with the free market)
2. Internal capital markets (top management has better and detailed information about the right investment opportunities and has superior control of the use of capital and can minimise losses within the group)
3. Development of human capital (managers of each unit in the group have their own experience and knowledge, and efficient allocation of this accrued knowledge can give an edge over the competition. A diversified firm is also able to rotate managers and to offer them experience in other business sectors, increasing thereby its human capital).

(Roberts 2004, p216-217 and Clarke&McGuinness 1987, p110)

Some analysts think that, as markets develop and specialise, the scope for conglomerates is diminishing. However, one argument in favour of conglomerates is the desire of large family companies to establish opportunities for their offspring. (Economist 2015)

### **3.1.5. THE FAMILY FIRM**

As far back as 1932, Adolph Berle and Gardiner Means argued in their book 'The Modern Corporation and Private Property' that "public companies were rapidly replacing family owned companies as the mainstay of modern capitalism". Alfred Chandler, too emphasised that family companies were a relic of an old era and not able to muster the capital and managerial talent to compete in a modern world, public companies with numerous shareholders and professional managers were the answer. He was right that public companies made great strides as capital intensive business needed to tap the market for funds. But he was wrong in predicting that family companies would be pushed to the margins in a modern economy.

The main problem of the public company is the potential conflict of interest between the diverse and dispersed number of shareholders who are its owner, and the professional managers who run the company and take decisions. The owners (= shareholders) have to develop means and methods to prevent the agents (= managers) from losing them money as the interests of both sides do not always concur. One way to solve this 'agency problem' is to give managers share

options in order to make them think more as owners.

Family companies do not have the same problem. They often think more clearly and longer term than employed professionals because they own the company rather than merely renting it. Families have always been at the centre of business, and family companies are the world's oldest. From early stages, in a world of poor banking, legal framework and communication they could offer two important elements of growth: trust and loyalty. There are various advantages inherent in the family firm:

1. The most important is the sense of ownership which helps to avoid two big shortcomings: The preference for short term results over long term success, and the solution to the 'agency problem', the conflict between owners and management.
2. Family firms usually possess a strong company culture compared to the dull public company. They have developed a distinctive own way of doing business, often based on the strong convictions of the founder.
3. Although big family companies have also a need to tap public capital markets, they use - by creating pyramids - a technique to preserve their power and control. The family controls the company which sits on top of the pyramid which has a controlling stake in the one at the lower level, and so on. This scheme provides it with the best of both worlds: secure control of the group and unlimited access to capital.

In Asia, the fastest growing region in the world, big family-run businesses play a dominant role. They have the huge advantages of long term thinking and centralised ownership. They have, however, also two unique disadvantages: The problems of succession and of family feuds. (Economist 2015)

### **3.1.6. GOALS**

Now, irrespective of whether the large enterprise works in a competitive market or as an oligopoly or monopoly, whether it is vertically integrated or a conglomerate, whether it is a family company or publicly listed, there is the common motive of profit, albeit in different degrees of intensity.

#### **Maximum Profit**

Strict *profit maximisation* as the sole driver of business decisions is often frowned upon but, apart from bringing optimum benefit to the owners of the company, it can bring benefits to the society as a whole. According to Milton Friedman (in "Capitalism and Freedom 1962), "with a profit-minded business sector there is an almost ironclad guarantee that production will be in harmony with demand. One can even say that business firms behave responsibly by seeking to earn the largest practicable amount of profit, for by doing so firms will be producing what society is most desirous of having performed."

The conclusion is that firms are socially responsible in their pursuit of maximum profit because through the profit achievable society signals which goods and services are most wanted. The desire to avoid losses is also an excellent tool to allocate resources in such a way that consumers' tastes and preferences are met.

Another valuable contribution to society is innovation made possible through profit. Innovation is at the core of higher production capacity, higher output and employment growth. It is the driver of economic growth and of improvement in living standards.

If a firm does not earn at least normal profits it is not healthy. If it loses money or does not get a reasonable return on investment it cannot grow. And without such growth it cannot offer job prospects, pay higher salaries, obtain credit at competitive terms and find the resources to innovate. It will not be, therefore, a useful instrument to foster economic welfare. (Thompson&Formby 1993, pp246-247)

### **Satisfactory profit**

An alternative to profit maximisation is the aim to achieve a *satisfactory rate of profit*. The reasoning why satisfactory profits are preferable to maximum ones is the growing perception that an organisation is not only responsible to its shareholders but also to its employees, customers, suppliers, communities and to society as a whole. Following this line of thinking, executives should bear in mind, besides the interest in higher profits, the demand for better wages and working conditions, customers' wish for lower prices and higher quality, suppliers' demands for reasonable margins and long term commitments, and society's wish for a clean environment; in short, they should take into consideration the welfare of all participants. (Thompson&Formby 1993, pp254-255)

Then there are, besides the profit motive, various other goals a firm may pursue:

### **Revenue maximisation**

A firm may opt, once an acceptable rate of profit is secured, to go after higher turnover. Increased revenue is a signal by the market that its products and services are well received, its competitive position strengthened and future growth more secure.

### **Market share**

Being high up in the market share order signifies strength and competitiveness, and enables economies of scale. However, big market share alone is not proof of success if achieved only by undercutting the competition and losing sight of profitability.

### **Long-term existence**

The motivation to survive in the long run and to earn reasonable profits constantly is often stronger than the urge to maximise profits quickly, especially in family firms. To grow at a speed chosen by the owner rather than market expectations, ride out periods of turmoil, make acquisitions carefully and maintain a longterm outlook are means to run a firm successfully.

### **Growth and diversification**

Growth through bigger market share and penetration gives a firm a more secure position, it can take bolder decisions and gain a foot over its rivals. Growth by diversification gives it a wider range of products and services, making it less dependant on just one line of business; if one part fails or gets out of fashion it can be replaced quickly and without jeopardising the overall performance.

This all leads then to long-term growth. And it is this growth potential which is of interest to shareholders and analysts rather than short term performance. The rates at which sales and profits have grown is important, and not the absolute figures.

(Thompson&Formby 1993, pp255-256)

### **Corporate Social Responsibility (CSR)**

The urge to hold large corporations 'socially responsible' has increased in recent years. This social responsibility can come in different forms such as

- inclusion of different interest groups in a firm's governance
- consideration of both stockholders interests and those of society
- adjustment of corporate policies so that they also promote public welfare
- adoption of responsibility for social and environmental harm.

At first glance, this assumption of social responsibility seems to run counter to a firm's goal to achieve good or maximum profit. Reducing emissions, for instance, over and above the legal requirements to improve the environment for the surrounding community cuts into profits, same as to continue a loss-making operation just to keep people employed and let them earn wages. However, the idea behind CSR is to create corporate policies which serve the interests of stakeholders by creating a social environment in which firms can grow and prosper safely, in the long run. Seen in this light, the search for profit and the one for social justice are mutually reinforcing. (Thompson&Formby 1993, p257)

The way these goals are pursued, the emphasis laid on each of them, the tools which are applied to achieve them and the strength of the efforts made determine the impact on the surrounding environment and society.

It is summarised by the "Triple Bottom Line" (TBL), a term coined in 1994 by John Elkington, founder of a British consultancy called SustainAbility. Instead of concentrating on one (financial) bottom line of profit and loss only, without consideration of all the other impacts a company's activities may have on its surroundings, TBL adds two more 'bottom lines', *social* and *environmental (ecological)* concerns. Corporate performance is then measured not only by its economic, but also its social and environmental outcomes and impact. (Benn&Bolton 2011, p222)



## 3.2. SOCIO-ECONOMIC IMPACT

What is impact? Impact is any effect arising from an intervention. This includes immediate short-term outcomes as well as broader and longer-term effects. These can be positive or negative, planned or unforeseen. ([www.biglotteryfund.org](http://www.biglotteryfund.org))

The way a large enterprise is influencing its surrounding environment and society is ever more closely watched by stakeholders affected, and criticism, if something goes wrong, voiced ever louder. On the other side, when taking into consideration these concerns, there are advantages to be gained such as risk reduction, brand awareness and creation of new business opportunities.

But to create lasting value both for the business itself and its stakeholders, these socio-economic impacts must be identified, aligned with the company's strategy and integrated into its business performance. If it remains a separate, stand-alone exercise in communicating with society, it will not generate the benefits desired.

The World Business Council for Sustainable Development (WBCSD) has produced "Measuring socio-economic impact: a guide for business" which explains essential concepts and provides a set of tools, based on two criteria: First, they concentrate on socio-economic impact, going therefore further than the usual measurement of environmental impact only. Second, they have been developed specifically by and for business. ([www.theguardian.com](http://www.theguardian.com)). According to this WBCSD it is important to identify

### **Direct and Indirect Impacts**

*Direct impacts* can be the consequence of day-to-day activities such as job creation, purchase of raw material, sale of products and services, observing certain work practices and standards, tax compliance or not, and similar. These direct impacts are largely under the *control* of the firm.

These direct impacts have then "knock-on" or *indirect impacts* such as creation of jobs at suppliers or distributors, improved living standards for customers, enviable working conditions for employees and managers, government funds available for improved infrastructure etc. Indirect impacts are under a firm's *influence*.  
(WBCSD 2008, pp23-25)

### **Business Activities to be Assessed**

The WBCSD framework assesses eight business activities grouped into four clusters, based on input from its member companies:

1. Governance and Sustainability (*Corporate Governance and Environmental Management*)
2. Assets (*Infrastructure and Products & Services*)
3. People (*Jobs and Skills & Training*)
4. Financial Flows (*Procurement and Taxes*)

Every group is then subdivided and analysed by

- Source of impact (e.g. green house gas emission)
- Direct impacts (e.g. total CO<sub>2</sub> equivalent emissions;  
reduction (%) of CO<sub>2</sub> equivalent emissions;  
greenhouse gas emission offsets)
- Indirect impacts (e.g. changes in local air quality;  
estimated emissions by local suppliers)

This is a very technical exercise, listed in detail in appendix 2 of the WBCSD (2008) "Measuring impact: Framework methodology", requiring measurement indicators for each and every direct and indirect impact. (WBCSD 2008, pp12,44-54)

It is a valuable tool for the management of large enterprise to establish guidelines and to measure the impacts of all their business activities. There are, however, development issues which go beyond pure business considerations, and they are

1. Capacity Building
  2. Economic Growth
  3. Education
  4. Enterprise Development
  5. Environmental Sustainability
  6. Governance
  7. Human Rights
  8. Poverty Alleviation
  9. Public Health
  10. Social Stability
- (WBCSD 2008, p27)

In the following a more detailed description of these socio-economic impacts (listed in alphabetical order but not necessarily in order of importance or valuation):

### **3.2.1. CAPACITY BUILDING**

#### *Description:*

The World Bank defines capacity building as a "coordinated process of deliberate interventions by insiders and/or outsiders of a given society leading to (i) skill upgrading, both general and specific, (ii) procedural improvements, and (iii) organisational strengthening. Capacity building

refers to investment in people, institutions and practices that will, together, enable countries in the region to achieve their development objective. Capacity is effectively built when these activities are sustained and enhanced with decreasing levels of donor-aid dependence accompanied by increasing levels of societal goal achievement."

*Possible contribution by business:*

Companies can support capacity building by formal skills and training programs as well as informal knowledge and technology exchange. If they engage employees, suppliers and communities, aligning both business and community needs, then valuable impact on development can be achieved.

### **3.2.2. ECONOMIC GROWTH**

*Description:*

Economic growth is usually defined as the increase in the value of goods and services in an economy, and measured as the percentage increase in gross domestic product (GDP) which is the sum of gross value added by all resident producers, plus any product taxes and minus any subsidies not included in the value of products. ([www.data.worldbank.org](http://www.data.worldbank.org))

*Possible contribution by business:*

By providing products and services business is the main contributor to economic growth, and this contribution can be measured by its value added to an economy. The precise figure for this added value is the sum of four data to be found in a firm's accounts: operating profit, employee costs, depreciation and amortisation.

### **3.2.3. EDUCATION**

*Description:*

Education is the key to reduce poverty and inequality and the foundation for sustained economic growth. Knowledge, created by education and then properly applied is the basis for building robust and competitive economies.

*Possible contribution by business:*

To ensure that the local labour pool has the right employment skills for the tasks a company needs to be performed, it usually invests in some form of secondary education and special training. However, if it wants to create a wider basis of educated young people and build economic impetus in the community as a whole, it may invest further in primary education and extra educational facilities.

### **3.2.4. ENTERPRISE DEVELOPMENT**

*Description:*

Small and medium enterprises (SMEs) are a critical factor in the economic development of a community. Usually locally owned and managed, they are a stronghold in providing employment and holding together the social fabric. If part of the formal sector, they contribute to added value by paying taxes. If well organised, they give each other technical and financial support and build supply chains.

*Possible contribution by business:*

Large enterprise can source more from local suppliers instead from other regions or countries. They can help SMEs by providing management training, bookkeeping skills, setting performance goals, storage and warehousing management, marketing and distribution, and quality control, thereby making them better business partners. They can also invest directly in technology transfer, building of infrastructure and provision of credit.

### **3.2.5. ENVIRONMENTAL SUSTAINABILITY**

*Description:*

Environmental sustainability means the long-term preservation of an ecosystem so it will function also in future. It has to meet the needs of present society without endangering the needs of future generations. It should

- keep the number of population sustainable in the region concerned
- make sure that renewable resources can in fact be renewed
- control and conserve the use of non-renewable resources
- keep environmental impact at a level where it allows systems to recover and evolve.

*Possible contribution by business:*

Every company has some form of environmental 'footprint' whose impact depends in great part on the sort of industry in which it is active. E.g. mining, energy and forestry industries must adopt remedial measures to restore the environment after the extraction of resources. Industries using excessive amounts of water should make special efforts in recycling and re-use, energy intensive ones efforts in efficiency and technological improvement. To pay special attention to the environmental impacts of production, distribution and packaging is valid for all sorts of industries.

### **3.2.6. GOVERNANCE**

*Description:*

According to WBCSD, "governance refers to the use of institutions, structures of authority and collaboration to allocate resources, and to coordinate/control activity in a society or economy. Good governance is associated with citizen participation and overall improved accountability of public officials to citizens."

*Possible contribution by business:*

Large enterprise can encourage or undermine good governance. Anti-corruption behaviour and guidelines give an example to others, can change long-held negative attitudes and build commitment. By building infrastructure and other communal installations in private-public partnership, business can help to establish stable, efficient and reliable public institutions.

### **3.2.7. HUMAN RIGHTS**

*Description:*

The International Human Bill of Rights and a series of other human rights declarations regulate principles, guidelines, standard rules and recommendations. Although they often have no binding legal effects, they nevertheless have strong moral force and provide standards of conduct. In countries with instruments defined by law, clear codes of conduct are established for companies and industry. The challenge is often their implementation, especially in communities where the respect for human rights is low.

*Possible contribution by business:*

Although it is mainly the task of governments to look after the human rights of their citizens, business can play an important supporting role. They can fight discrimination by race, gender, disability, age and ethnic prejudice within their own companies, their suppliers and distributors, and within the community they operate in. They can set a good example and influence other organisations, especially in a weak human rights environment.

### **3.2.8. POVERTY ALLEVIATION**

*Description:*

Lack of income (economic deprivation) is the most common definition of poverty, however, it does not touch on its countless social, cultural and political aspects. Poverty deprives people of basic social and economic rights such as the right to health, adequate housing, food and safe water, and to education. It also denies civil and political rights such as the right to fair trial, political participation and personal safety.

*Possible contribution by business:*

The most valuable contribution is the provision of direct and indirect employment. Income generated by a formal job can support a large family and pull many members out of poverty. A further contribution is a responsible procurement policy, and also the support of small producers, especially in agriculture, by technology transfer and capacity building. Taxes paid by a company can also contribute to provide basic services to the most destitute, provided the right framework for tax distribution is in place. Overall, wealth created by a company's activity in a certain community will improve the opportunities to earn a living.

### **3.2.9. PUBLIC HEALTH**

*Description:*

The World Health Organisation defines health as "a state of complete physical, mental and social well-being and not merely the absence of disease or infirmity". Public health then refers to the health of a community as a whole.

*Possible contribution by business:*

Through the production and sale of goods and services that prevent disease, cure illnesses or promote healthy lifestyles, business can contribute positively to long-term health. On the other hand, it can also exercise negative effects by manufacturing and distributing unhealthy products (tobacco, alcohol, sugary drinks, fattening fast food etc.). Besides the usual installation of healthy work conditions and access to medical care for its employees, a company may go further to assist the local community. By building hospitals or paying for their maintenance, by providing fast and easy access to medical care, or by constructing sports and recreational facilities, business can contribute to better health overall.

### **3.2.10. SOCIAL STABILITY**

*Description:*

Social stability is defined by the amount of peace, security, safety and trust within a society. Economic (e.g. income differentials) and social (e.g. discrimination by race, gender, religion) distortion can endanger the status of social stability.

*Possible contribution by business:*

Large enterprises have the possibility to reach a large number of people through their products and services, through the employment they provide, the investment decisions they take and the work and ethical practices they follow. Especially in countries with big social divides, political instability, a climate of crime or history of conflict, these companies have huge positive or negative influence, and can stabilise or destabilise a whole community.

(WBCSD 2008, pp57-64)

Having now established criteria to measure a market, defined what constitutes "big business" and identified the areas where socio-economic impacts are mostly felt, the following two case studies will exemplify these findings in practice.

## **4. FACTS AND FIGURES**

### **4.1. THE MARKET**

#### **4.1.1. PHILIPPINES**

The Philippines, covering an area of 300,000 km<sup>2</sup>, are spread over 7,000 islands in the Western Pacific. Its diverse population speaks more than 80 languages or dialects. While agriculture is still a significant part of the economy, industrial production in areas like electronics, apparel and shipbuilding has grown rapidly. Remittances from overseas workers are equivalent to nearly 10 percent of GDP. (www.heritage.org 2017)

#### **Growth**

Nominal GDP in 2015 was \$292 billion, and GDP per capita \$2,877. However, at purchase power parity (PPP) total GDP was \$741 billion, and GDP per capita \$7,254. (www.economywatch.com 2016). Coming from a slow start in the first half of 2015, due to weak government spending, the economy bounced back and brought full year growth to 5.8 percent. Among the major economies in the region, the Philippines was behind China and Vietnam only. (www.worldbank.org 2016)

#### **Population and Employment**

Total population in 2015 was 101 million, and the unemployment rate (in percentage of labour force) 6.3 percent, down from 6.8 percent in 2014. (www.economywatch.com 2016).

The Philippines enjoy a young population, and a big part speaks good English which has helped the country to build a booming service sector based on business-process outsourcing (BPO) comprising call centres, data transcription, software development and back-office services. Employment in IT and the BPO sector is estimated to have reached 1.2 million in 2015, and its revenues of \$22 billion are on par with remittances from the overseas work force. (www.thestandard.com.ph 2016)

However, the wealth generated by BPO and other service sectors has failed to trickle down to a wide part of the population. Nearly a third of Filipinos live on \$3,10 a day, and employment in agriculture, often the only source of income in the countryside, has fallen. (www.economist.com 2016)

#### **Government Fiscal Policies**

General government revenue in 2015 was \$56,50 billion, or 19.35 percent of GDP, whereas general government total expenditure was \$56,53 billion, or 19.36 percent of GDP, leaving practically no budget deficit this year. (www.economywatch.com 2016). The overall tax burden equaled 13.6 percent of total domestic income, and public debt stood at 44.8 percent of GDP. (www.focus-economics.com 2017)

## **Consumers**

According to the Philippine Statistic Authority, 22.730.000 families existed by the end of 2015. The average annual family income was \$5.680 whereby the highest average was registered in the capital region (\$9.040) and the lowest in Mindanao (\$2.960). Average annual family expenditure was \$4.570, again the highest being in the capital region (\$7.430) and the lowest in Mindanao (\$2.360)

In 2015, a family of five needed at least \$135 per month to cover the family's basic food needs (= food threshold), and \$193 to meet basic food and non-food needs (= poverty threshold). On the basis of these figures, 21.6 percent of the population lived below the poverty line, down from 25.2 percent in 2012. And 8.1 percent lived below subsistence level (food threshold), down from 10.4 percent in 2012. (www.psa.gov.ph 2015)

## **Investment and Savings**

FDI (foreign direct investment) in 2015 amounted to \$5,724 billion, flat against the \$5,74 achieved in 2014 but below the central bank target of \$6 billion. The bulk of total inflows came from the United States (\$731 million), followed by Japan (\$388 million), the United Kingdom (\$372 million), the Netherlands (\$361 million) and Singapore (\$158 million). The main investment sectors were manufacturing, finance and insurance, and real estate. But the Philippines were well behind its neighbours: in the first three quarters of 2015 alone, Singapore took in \$48,6 billion, Malaysia \$7,8 billion and Thailand \$6,3 billion. (www.bworldonline.com 2016)

Gross national savings in the year 2015 were 23.73 percent of GDP which makes the Philippines No. 54 in world ranking. However, they were 6.2 percent above the world average of 17.53 percent. (www.economywatch.com 2016)

## **Balance of Payments**

In 2015, imports of goods and services amounted to \$66,7 billion, and exports to \$58,6 billion, leaving the trade balance in a deficit of \$8,1 billion. Compared to 2014, exports decreased by \$5,6 billion whereas imports increased by \$2 billion. Current account balance was \$8,4 billion, or 2.9 percent of GDP. International reserves stood at \$80,7 billion, and external debt was 26.6 percent of GDP. (www.focus-economics.com 2017)

## **Money and Financial Markets**

Domestic liquidity or M2 increased by 9.4 percent year-on-year in 2015, following an 11.2 percent expansion at the end of 2014. The increase in money supply was consistent with robust domestic demand.

Domestic interest rates increased generally at the end of 2015. The average lending rate stood at 6 percent, and the 91-day treasury bill rate at 1.75 percent.

The exchange rate of the Philippine peso averaged 45,50 per US\$1 but depreciated to 46,93 by



the end of the year. On a real trade-weighted basis, the peso lost external price competitiveness against the basket of currencies of all trading partners.

The banking system's total deposits increased by 8.9 percent compared to 2014, and stood at \$155 billion at the end of 2015.

During 2015, the Philippine Stock Exchange index increased by 9.4 percent to an average of 7.432, but at the end of the year it fell below the 6.800 mark due to a slowdown in the Chinese economy, the Greek debt crisis, a fall in oil prices and speculation on the US Fed's lift-off of monetary easing.

The Philippine sovereign credit rating by all three major rating agencies was stable to positive. (BSP Annual Report 2015)

### **Prices and Wages**

Year-on-year headline inflation averaged 1.4 percent in 2015, lower than the 4.1 percent in the previous year and below the government's inflation target of 3.0 percent plus/minus 1.0. Inflation eased due to adequate supply of food commodities, including rice, and a sustained decline in international crude oil prices. (BSP Annual Report 2015)

At the beginning of 2016, the official minimum wage per day in the NCR (national capital region) was fixed at \$10,50 for non-agricultural workers, and \$9,70 for agricultural workers. Outside the capital, however, it decreased considerably and fell to almost half in the far-flung provinces. ([www.nwpc.dole.gov.ph](http://www.nwpc.dole.gov.ph) 2016). According to a nationwide salary survey, the average gross annual salary in 2015 was \$18,500, and the average net salary \$14,200. ([www.averagesalaraysurvey.com](http://www.averagesalaraysurvey.com) 2015). In general, labour costs are among the most competitive in the Asean countries, especially compared with China, and makes the Philippines an attractive alternative investment location. ([www.business.inquirer.net](http://www.business.inquirer.net) 2016)

## **4.1.2. SOUTH KOREA**

The Korean peninsula is located on the eastern rim of the Asian continent, and the Republic of Korea - or South Korea - occupies its southern part, up to the 38th parallel line. The country covers an area of 99,000 km<sup>2</sup>, roughly the size of Portugal, and is home to about 50 million people. In each of the five decades after the end of the Korean war, average annual growth had exceeded five percent, and South Korea is now an innovation-driven high-income country with sustained growth and development. ([www.tutor2u.net](http://www.tutor2u.net) 2014). However, long term challenges to the economy include a rapidly ageing population, inflexible labour market, dominance of large conglomerates (*chaebol*) and a heavy reliance on exports. ([www.economywatch.com](http://www.economywatch.com) 2017)

### **Growth**

Nominal GDP in 2015 was \$1.377 billion, and GDP per capita \$27,195 (on PPP terms total GDP was \$1.848 billion and GDP per capita \$36,511). Economic growth fell back to 2.6

percent in 2015, following a slow fourth quarter and the sharpest annual decline in exports since the global financial crisis. (www.economywatch.com 2017)

### **Population and Employment**

Total population by the end of 2015 was 50,6 million of which 10,1 million lived in the capital Seoul and another 15 million in the surrounding province of Gyeonggi-do. (www.sgsg.samsung.com 2016). Koreans are an ethnically unified people with one common language. Life expectancy is high, and public expenditure on education and training generous (about 4 percent of GDP). The country is highly urbanised (83 percent), and income and wealth inequality rather low but with increasing tendency. (www.tutor2u.net 2014). Unemployment rate is low, oscillating between 3.1 and 3.6 in the years 2011 to 2015, and total employment in the year 2015 was 25,9 million (www.focus-economics.com 2017)

### **Government Fiscal Policies**

General government revenue in 2015 was \$288 billion, or 20.9 percent of GDP, whereas general government total expenditure was \$290,4 billion, or 21.1 percent of GDP, leaving a budget deficit of 0.18 percent. (www.economywatch.com 2017). The overall tax burden stood at 24.6 percent of total domestic income, and public debt at 35.9 percent of GDP. (www.focus-economics.com 2017)

### **Consumers**

Korean workers' annual salary rose to \$28.880 on average in 2015, or up by 1.5 percent if compared with the previous year. At large businesses, the average yearly income of regular workers came to \$57.600, putting them in the top 9.5 percent of the income class. But regular workers at SMEs carried home an average annual salary of just \$29.600, almost fifty percent less than their fortunate colleagues at the big conglomerates, widening the income gap between workers at large and small enterprises. (www.koreatimes.co.kr 2016).

A public pension system was introduced relatively recently. It is an earnings-related scheme with a progressive formula, and benefits are based both on individual earnings and the average earnings of the insured as a whole. Besides this system, there exists a "Basic Pension" for people aged 65 and over who were in the bottom 70 percentile of income earned. It pays a maximum of \$180 per month, and by the end of 2014 almost 5 million people benefited from this programme. Overall, public pension spending was just 2.2 percent of GDP in 2015, compared with an OECD average of 7.9 percent. (OECD in www.keepeek.com 2015)

### **Investment and Savings**

Since the global financial crisis, FDI (Foreign Direct Investment) in Korea has been on an upwards trend, from \$5,4 billion in 2010 to \$15,9 billion in 2015. The total FDI figure stood at \$174,6 billion by the end of the year. One factor boosting foreign investor confidence is the country's impressive credit rating, i.e. Aa2 by Moody's and AA by S&P, placing South Korea above China and Japan. Another one is the completion of the Korea-China Free Trade Agreement which made China the leader in FDI increase with 66.3 percent year-on-year, followed by the US with 51.8 percent. In 2015 the largest FDI funding went into the service

sector, followed by manufacturing, IT, finance, media and entertainment. (www.linkedin.com 2016)

Although Korea's attitude to FDI is positive and senior policy makers realise its value, it is still often hindered by insufficient regulatory clarity, including inconsistent and sudden changes in the interpretation of regulations, as well as weak corporate governance. Other obstacles are high labour costs, an inflexible labour system and economic dominance by large conglomerates, or *chaebol*. (www.export.gov 2016)

The net personal savings rate in 2015 was a very high 7.7 percent of GDP. Gross National Savings (GNS) which include household, corporate and government figures, stood at 35.66 percent of GDP, making Korea number eight in worldwide GNS ranking in 2015. As the world's average figure is 17.53 percent, Korea saves more than double. (www.economywatch.com 2016). This rise in savings was attributed to weaker overall growth, slower income gains, a rapidly ageing population and an increase in home rental costs. It is also a sign of growing uncertainty about the future as more people prepare for old age and try to pay back outstanding debt. (www.english.yonhapnews.co.kr 2015)

### **Balance of Payments**

Trade is important to South Korea's economy, the value of exports and imports together represents almost three quarters of GDP. (www.heritage.org 2017). In 2015, exports amounted to \$527 billion and imports to \$426 billion, leaving a positive balance of trade of \$91 billion. Compared to 2014, exports decreased by 8.0 percent while imports fell by an even more drastic 16.9 percent. The current account balance was \$106 billion, or 8.1 percent of GDP. International reserves reached \$368 billion, equivalent to 27.6 percent of GDP and 3.4 times short-term foreign debt which helps protect Korea against future crises and reduces the cost of foreign borrowing. (www.focus-economics.com 2017)

### **Money and Financial Markets**

According to central bank data, money supply posted the fastest growth in five years in 2015 due to record-low interest rates. The country's M2, or broad money, averaged \$1,8 trillion in 2015, up 8.6 percent from a year earlier and the highest increase since 2010. As the BOK (Bank of Korea) cut its benchmark interest rate by 25 basis points to an all-time low of 1.5 percent, its prolonged expansionary monetary policy kept large amounts of money circulating in the markets. (www.news.xinhuanet.com 2015)

Monetary policy also needs to take into account exchange rate developments. Maintaining a flexible exchange rate is an essential tool to prevent external shocks, and the Korean won's tendency to appreciate since 2013 is supporting imports and has positive spillover effects on other countries. (OECD 2016, p26). The KRW is a fully convertible currency, and Korea is participant of the Chiang Mei Initiative, a \$240 billion currency swap arrangement between 13 countries, including China and Japan. (www.fxcm.com 2015)

As in most other countries, stock market capitalisation in Korea is counted as the number of

shares traded on the stock exchange times their prices. It is usually reported as percentage of GDP so the size of the stock market can be put into relation to the size of the economy. Stock market capitalisation at the end of 2015 was 89.4 percent of GDP (up 2.4 percent over the previous year), which - being over 50 percent - indicates a well developed stock market. (www.theglobaleconomy.com 2017). KOSPI, the major stock market index of South Korea, launched in 1983 with a base value of 100, breached the 1.000 mark the first time in April 1989. In April 2015 it reached its all-time high of 2.189 points. (www.moneycontrol.com 2017)

### **Prices and Wages**

By the end of 2015, overall consumer price inflation was 1.3 percent, compared with 0.7 percent in the previous year. (www.focus-economics.com 2017). The Bank of Korea cut its policy interests rate to a record low of 1.5 percent in June 2015 and reduced its inflation target to 2 percent for the period 2016-18. With this it aims to better meet inflation expectations and to be more in line with the practice of central banks in other advanced economies. (OECD 2016, p25)

For 2016, the minimum wage was set at \$5,31 per hour, up 8.1 percent from 2015. This hourly wage - roughly the cost of a Starbuck's grand-sized Caramel Macchiato - translates then to \$42,48 for an eight hours working day, or \$1.110 per month based on an average of 209 hours of work. The labour unions who initially demanded \$8,80 (or an increase of 79.2 percent over the minimum wage in 2015) complained that the new minimum is not enough to narrow the widening income gap in the country and to stabilise the lives of low-income workers. (www.english.yonhapnews.co.kr 2015)

## **4.2. THE FIRM**

### **4.2.1. AYALA CORPORATION in the Philippines**

#### **Concept and Strategy**

During the Spanish colonial rule, two Spaniards, one of them Antonio de Ayala, built a distillery in 1834 to create additional value from cane sugar. So they started out with a "single business company operating in only one stage of industry". Over time it grew, and it had 3.000 employees when it was sold at the turn of the 20th century. In the 1850s, land of little value was purchased in the area of San Pedro de Makati extending onto the banks of the Pasig river. Many decades later, between the two world wars, the Ayalas began to develop this real estate which should later emerge as the Philippines' foremost central business district. Ayala remained a family business but grew more corporate in character, starting to employ outside professional managers. It incorporated in 1968 and became publicly listed in 1976. (www.ayala.com.ph 2015). Ayala Corp. continued its expansion and diversification, and in the 180 years from its

foundation it passed through all six stages of development to become a "broadly diversified enterprise with a large number of business units active in multiple related and unrelated industries and services".

In the process it took calculated risks and strove to be among the leaders in its chosen fields of activity. After successfully building its core businesses - BPI, Globe Telecom, Ayala Land, Manila Water and IMI - Ayala Corp. consolidated its foothold in new investments. In 2016, its CEO Jaime Augusto Zobel de Ayala announced the "unified brand identity" of its five new businesses: AC Energy (power generation), AC Infra (infrastructure), AC Health, AC Education and AC Industrial (transportation). (www.sunstar.com ph 2016)

### **Conglomerate**

Founded in 1834, Ayala Corporation is one of the oldest and most respected business groups in the Philippines, with majority shareholdings in

- *Ayala Land (47.2%)*

The Philippines' largest fully integrated property developer.

- *BPI (48.3%)*

Bank of the Philippine Islands is the oldest bank in the Philippines and one of its largest.

- *Globe Telecom (30.4%)*

A partnership between Ayala and Singtel, Globe Telecom is a leading provider of telecommunication and broadband services in the country.

- *Manila Water (51.6%)*

The sole provider of water and wastewater services in the east zone of Metro Manila, with existing operations in other parts of the Philippines and Southeast Asia.

- *IMI (50.7%)*

Integrated Microelectronics Inc. is a leading electronics manufacturing service provider in the region.

- *Ayala Automotive (100%)*

The leading vehicle dealership network for Honda and Isuzu, and the Philippines distributor of Volkswagen.

- *AC Energy (100%)*

AC Energy Holdings Inc. holds a diversified portfolio of conventional and renewable power generation.

- *AC Infra (100%)*

AC Infrastructure Holdings Corp. pursues toll road, rail and airport projects under the government's public-private partnership (PPP) programmes.

- *Ayala Education (100%)*

Ayala Education Inc. invests in education business, with the aim to offer affordable quality education to enhance the career prospects of students.

- *Ayala Health (100%)*

Ayala's investment to make quality healthcare more accessible and affordable.

- *LiveIt (100%)*

LiveIt Investments Ltd. is the holding company for Ayala's investment in the BPO (business process outsourcing) sector.

- *AC Holdings (100%)*

The holding company for Ayala's international property investments in the United States and Asia.

- *Ayala Foundation (100%)*

The conglomerate's social development arm in four key areas: Education, Youth Leadership, Sustainable Livelihood, and Arts and Culture.

(Ayala AR 2015)

With a diversified business portfolio that includes real estate development, banking and financial services, telecommunications, water distribution infrastructure, electronics manufacturing services, automotive dealership, overseas real estate investments, business process outsourcing, power generation, and health and education, Ayala is truly a conglomerate as described by Fernandez and Hogenboom 2007: 'A large company functioning in diverse and often unrelated sectors but often including the financial sector which may be in parts vertically or horizontally integrated. Capital may be obtained externally but can also flow within the group via loans, bank guarantees and shares, through a central holding company.'

It also features the three main advantages of conglomerates:

1. Efficient allocation of resources
2. Internal capital markets.
3. Development of human capital

(see chapter 3.1.4.)

### **Family Firm**

The Ayala empire has been run by the Ayala-Zobel dynasty for over 180 years. The family business started out in agriculture and then diversified into everything from construction to telecommunication. The six main businesses have been listed on the stock exchange and put in the hands of professional managers, but the family remains at the heart of the firm. Two brothers of the sixth generation, Jaime Augusto and Fernando Zobel de Ayala run Ayala Corporation, the holding company that sets the strategy. (The Economist, April 18, 2015)

The Ayala model shows the continuing role of the family in ownership and management. Even as the firm diversified greatly, generations of family members have succeeded to keep management control, and organisational stability has been ensured by preventing any major conflicts in principal-agents interests. Whenever serious problems arose, the firm's majority owners acted decisively in replacing top executives, both family and non-family members alike. This also helps to explain why external financing has been kept at manageable levels in the parent company. In terms of entrepreneurship, each generation made its contribution to the firm's growth and expanded the breadth and depth of its portfolio, employing both family and non-family executives. This way, stewardship preserved capital, and entrepreneurship secured creation and growth. (Batalla 1999, p41)

Ayala, therefore, made use of the advantages offered by the family firm:

1. It avoided the agency problem by keeping firm control and stewardship, staying at the helm of the holding company. Professionals who were hired to manage the subsidiaries were given share options.
2. Over the more than 180 years of its existence, a strong company culture was developed and the "Ayala" brand promoted throughout the organisation.
3. The Zobel de Ayala family's private holding company *Mermac Inc.* (named after Mercedes Macmicking, aunt of Jaime and Fernando) continues to hold, by the end of 2015, a controlling stake of 49 percent in Ayala Corporation. (www.ayala.com.ph 2016)

### **Large Enterprise**

The Ayala group, with (by the end of 2014) almost 43.000 employees, a combined revenue of \$7,4 billion, a market capitalisation of almost \$10 billion and a contribution of 2,6 percent to the Philippines' GDP can certainly be called a large enterprise. By owning the country's largest real estate developer, the biggest bank by capital and the second-largest telecommunications provider it exerts market dominance in several sectors.

The question is whether this dominance was achieved by predatory behaviour, or by offering better products and services, quality management, good customer relations, successful brand building and other improvements, in short by being efficient and therefore enhancing economic welfare. The very long history of the company alone, and its successful position in the market today, suggest the latter. "Professionalism, transparency, integrity and governance standards are paramount", according to Fernando Zobel de Ayala, COO of Ayala Corporation. "In the culture of Ayala group, we strongly believe that it is companies with these types of standards that build long-term trust with investors, customers and other stakeholders. We measure the success of our businesses not only in terms of the financial and economic value we generate for our shareholders but also in terms of the impact we make in the lives of the people in the communities wherein we operate." (www.knowledge.insead.edu 2017)

On the other hand it is obvious that in a business history of almost two centuries there were *entry barriers* erected along the way to keep out competitors, the *allocation of limited resources* such as land, water and finance obtained by recklessness, *vertical integration* used to escape tax or squeeze out the competition, and *horizontal integration* to build monopolistic structures. But in the end, lasting *competitive advantage* in the different fields of operation was achieved by providing better quality, giving superior customer service, offering affordable prices and building successful brands.

One point worth mentioning is that Ayala became one of the largest businesses in the Philippines without actively seeking *political favours*, in contrast to family firms like Mitsui and Mitsubishi in pre-war Japan, Samsung in Korea, Salim in Indonesia or Bangkok Bank in Thailand. It was never part of president Marcos's crony capitalist circle, and although the family clearly supported the Aquino and Ramos administrations, there were never any family members or Ayala group executives implicated in obtaining special government favours. The motto was

that 1) no family member joined electoral politics, and 2) family and firm rejected the use of political influence for rent seeking. (Batalla 1999, p39)

## Goals

*Maximum profit* may not be the sole driver of business decisions at Ayala Corporation but it certainly plays a dominant role. In its Annual Report, CEO Jaime Augusto Zobel de Ayala boasts that "2014 was a strong year for the Ayala group, with net earnings growing by nearly half over the previous year and reaching a record high. We saw our stock price close at PHP 694 per share at the end of the year, a 38 percent growth from last year, with our market capitalisation reaching the \$10 billion mark as of 31st December, 2014." (Ayala AR 2014)

But he also emphasises *satisfactory profit* when he points out in the same report that "as unprecedented growth in the economy continues to present attractive opportunities, we continue to challenge ourselves to innovate and to re-invent ourselves as we seek to address these new opportunities. Across all of our businesses, we are pushing ourselves to constantly think of new ways to create greater value for our customers and the markets we serve." (Ayala AR 2014)

Being more than 180 years old, *long-term existence* is in Ayala's DNA and continues to be a main goal. Its 2015 Annual Report states that "we aim to continue building a portfolio that provides multiple engines of scale, growth and diversification while remaining healthy and resilient throughout macroeconomic and geopolitical cycles. Moreover, all of our businesses will contribute to Ayala's long-term financial strength. Our group will remain anchored by our publicly listed units in real estate, banking, telecommunication and water infrastructure. As we strive to realise these long-term targets, we have continued to maintain a conservative approach to managing our finances. We believe that having a strong balance sheet provides our best defence to economic downturns and allows us to move aggressively when opportunities to growth and expansion present themselves." (Ayala AR 2015)

*Growth and diversification* are a logical consequence of the pursuit of profit and long-term outlook. In an interview which he gave to the Sunstar newspaper in 2016, Ayala's COO Fernando Zobel de Ayala said that "we continue to strengthen our portfolio by entering new industries or by reinventing our existing business. For instance, we are developing an automotive and manufacturing portfolio in order to maximise synergies in the Ayala group and take advantage of the exiting possibilities in this space. We take a deliberate approach to recalibrating our portfolio by identifying value-enhancing opportunities to achieve an optimum balance between return, diversity and social impact." (www.sunstar.com.ph 2016)

When it comes to *Corporate Social Responsibility*, CEO Jaime Augusto has a vision of the company as the driver of his country's modernisation, and he has made efforts to take the lead, from infrastructure building to corporate philanthropy. He has taken counsel from management gurus such as C.K. Prahalad who urges companies to look for "fortune at the bottom of the pyramid" and Michael Porter who advises to promote "shared value". (The Economist, April 18, 2015). In his opening address to the Annual Report 2014 he writes that "we are also of the



firm belief that the only way our country's growth can be truly sustainable is when progress is felt across all segments of the population. Our larger goal at the Ayala group is to continue to find ways to create shared value and inclusive growth. We remain committed to continuing our pioneering tradition, committed to touching many aspects of Filipinos' lives, committed to aligning our goals to the national agenda and reshaping industries that we believe are integral in sustaining our country's economic growth." (Ayala AR 2014)

#### **4.2.2. SAMSUNG GROUP in South Korea**

##### **Concept and Strategy**

The Samsung Group was founded in 1938 by Lee Byung-chull as a fruit and sundry-goods export company. But only in the 1950s, the period after the Korean war, the company got going, and Samsung Corporation, as the mother company, owned already Cheil Sugar, Cheil Wool and Ankuk Fire and Marine Insurance, and had participations in Hankook Tyres, the Choson Brewery and Pungkuk Alcohol. In 1957 it founded Hyosong Corp. and Kunyong Corp., two companies to take care of exports. (Choe 1994, p79)

Starting as a 'single-business company operating in only one stage of industry' Samsung had become, by the end of the 1950s, a 'narrowly diversified enterprise with a few business units of either related or unrelated industry or services'. It had laid, at that stage, the foundation to become a conglomerate.

Due to the expansion of the group and the divergent demands of the different businesses, Lee Byung-chull saw the necessity for an overarching management structure, and in 1959 he established the Office for Planning and Leadership within the board of Samsung Corp. From the beginning, Lee entrusted responsibility only in employees he had hired himself, and he understood successful management of a firm primarily as successful management of its employees. (Choe 1994, p81). In 1983, he formulated the following three company mottos:

- Contribute to the growth of Korea through industrial development
- Give top priority to human resources
- Continually rationalise business strategy

(Blassnig 1997, p39)

After Lee's death in 1987 the group was taken over by his third son Lee Kun-hee who initially heeded the same mottos but in 1993 began to change course, starting with what he termed corporate "shock therapy", and his famous words: "Change everything!"

First, he adopted a hybrid management system that combined the best from Western management practices with the best from the traditional Japanese system, allowing Western style focus on innovation be combined with the Japanese style of continuous process improvement. The aim was to surpass Samsung's regional Japanese competitors who, although being leaders in analog technologies, were reluctant to adopt digital ones. Samsung strove to be a leader in the region by improving marketing, R&D and design while maintaining excellence in manufacturing.

Lee's second strategy was to bring outsiders into South Korea and to send insiders, i.e. South Koreans, to other countries. In the beginning, executives brought from outside into the rigid hierarchy of Samsung (and into the closely knit society of Korea) experienced strong resistance, especially at the senior executive level. Samsung took then measures to remedy the situation such as having recruits from outside spend several years to learn the language and to adopt Korean culture by working in the Global Strategy Group (GSG). Similarly, Korean employees who were sent overseas had to acquire specialised knowledge and came back as change agents.

The third strategy of the New Management system was the focus on long-term investments rather than short-term financial performance. One initiative was the development of Samsung's design expertise. This long-term investment in design excellence, together with the company's traditional technological competence, turned the former low-cost imitator into a high-price seller of consumer electronic products. (Khanna,Song&Lee 2011)

In less than two generations, Samsung group, as a "broadly diversified enterprise with a large number of business units active in multiple related or unrelated industries and services", became the largest enterprise in the country, and made its place among the world's leading companies in electronics, shipbuilding, trade and construction.

## **Conglomerate**

Although big business groups, or conglomerates, exist in economically advanced as well as in less developed countries, there are certain characteristics which distinguish the *chaebol*, the Korean form of this kind of business agglomeration. (Kang M.H. 1996, p95). The meaning of the word *chaebol* derives from the two Chinese characters "chae" which stands for wealth or fortune, and "bol" which signifies group or ruling family. The analogous translation would be "the family ruling through wealth". (Kang G.W. 1993, p37). A *chaebol* is then defined by three structural traits:

- it is a collective of formally independent but affiliated firms operating in a number of diverse industries
- ownership and common administrative and financial control of the group lie in a dominant family
- the business group accounts for a significant percentage of the national economy.

(Murillo&Sung 2013)

As the Japanese colonial period, the Korean War, and a confiscatory land reform had wiped out any remains of rural or commercial wealth, the *chaebol* had no accumulated resources to tap into but started out small, generating surplus step by step. (Kang M.H. 1996, p96). Their development accelerated during the regime of president Park Chung-hee (1961-1979) when preferential treatment was given to certain companies to spur economic growth. National champions were created through the selection of big winners among Korean firms, by awarding them exclusive projects, especially in military and construction industries. Funds

were made available to them through government controlled banks, as well as export subsidies and tax reductions. In the 1980s, the *chaebol* no longer needed preferential financing, becoming multinational businesses in their own right and beyond state control. (Murillo&Sung 2013)

Samsung became the biggest of these conglomerates, posting a turnover of over \$300 billion, or 23 percent of Korea's GDP, by the end of 2013, and employing almost half a million people. By the beginning of 2015, its affiliated companies were active in:

### **Electronics**

- Samsung Electronics (the flagship firm and a global leader in semiconductor, telecommunication and digital convergence technology)
- Samsung SDI (a world leader in digital and mobile display technology)
- Samsung Electro-Mechanics (producer of key electronic parts and components)
- Samsung SDS (information technology service provider)
- Samsung Techwin (semiconductor, optics & digital imaging, engine, defense)
- Samsung Networks (business internet services provider)

### **Heavy Industry**

- Samsung C&T - Engineering & Construction Group (advanced technological expertise and experience in building, civil infrastructure, plant and housing business)
- Samsung Heavy Industries (shipbuilding & offshore, construction, and digital control system)
- Samsung Engineering (global engineering, procurement and construction contractor in the petrochemical, gas-processing and industrial/environmental plant fields)

### **Chemicals**

- Samsung General Chemicals
- Samsung Petrochemical
- Samsung Fine Chemicals
- Samsung-BP Chemicals (joint venture with BP)

### **Financial Services**

- Samsung Life Insurance
- Samsung Fire a & Marine Insurance
- Samsung Card (a leading investment bank in Korea)
- Samsung Securities
- Samsung Asset Management
- Samsung Venture Investment

### **Services and Others**

- Cheil Industries (the conglomerate's de facto holding company)
- Samsung C&T - Trading and Investment Group (trading of industrial commodities such as chemicals, steel and natural resources, and organising projects in energy and infrastructure)

- Samsung C&T - Resort Group (Everland resort, golf courses, landscaping, food & beverage)
- Samsung C&T - Fashion Group
- Shilla Hotels and Resorts
- S1 Corporation (provider of high quality security services)
- Cheil Worldwide
- Samsung Medical Centre (four general hospitals and a bioscience research institute)
- Samsung Economic Research Institute
- Samsung Biologics (contract manufacturing of biopharmaceuticals)
- Samsung Bioepis (production of biosimilar generics)
- Samsung Welstory
- Samsung Lions (sports club)
- Samsung Foundation

The fact that the *chaebol* consist of individual firms within the conglomerate, run by professional managers but actually controlled by a single overarching individual (*chongsu*) who makes the final decisions for the entire group, entails flaws and virtues, also at Samsung.

#### *Disadvantages*

- overinvestment or risky investments, due to easy access to finance
- investment diversifications which are financially not rational, out of fear to lose control over the group
- damage to shareholders' interests by internal trading or "tunnelling"
- senior positions in the group or subsidiaries are filled with family members or loyalists at the expense of excellence.

#### *Advantages*

- charismatic leader with a clear vision
- high degree of entrepreneurship
- sound management systems
- fast decision making
- long-term outlook
- creation of an internal market for labour and capital.

(Murillo&Sung 2013)

### **Family Firm**

Samsung, like other *chaebol*, possesses the three main characteristics of

- 1) family ownership and management
- 2) flexibility in exchanging capital, technology and personnel among member companies
- 3) diversification into unrelated businesses

held together by a combination of traditional values of Confucianism and patriarchy, and modern business practices. (Kim E.M. 1997, p93)

Samsung was led by its founder, Lee Byung-chull, as a patriarchal CEO until his death. He personified the company, a father figure in the Korean traditional mould, with all responsibility and decision-making concentrated in him. (Kang G.W. 1993, p81). But, breaking with Confucian tradition, he passed over his two eldest sons and appointed his third son, Lee Kun-hee, as his successor. As such a selection could easily lead to serious friction under the unwritten laws of Korean familism, Lee Byung-chull transferred - to lessen such friction - a large part of family stock to two foundations, Samsung Foundation and Samsung Mutual Aid. Once the succession process had ended and uncertainties been removed, the stockholdings of the two foundations decreased significantly. (Kang M.H. 1996, p104).

Lee Byung-chull had four sons and six daughters. The two eldest sons left Samsung, Kun-hee succeeded him in the chair of the *chaebol*, and the fourth son, Dae-hee was made managing director at Cheil Foods and Chemicals. The eldest daughter, In-hee was a major shareholder and advisor of Hotel Shilla, and the fifth daughter, Myong-hee, a major shareholder and managing director of the Shinsegae Department Store. The husbands of the other daughters held important positions in different companies of the conglomerate. (Kim E.M. 1997, p58). With the exception of the two eldest sons all siblings or their partners were successfully installed in the upper management, with Lee Kun-hee reigning supreme.

Lee Kun-hee was successful with his New Management System focusing on *long-term investments* rather than on short-term financial reward. By appointing family members to important positions part of the '*agency problem*' was also solved. And he installed a strong *company culture* in tried Korean tradition by creating a sense of brotherhood and belonging, with bosses treated as father figures and colleagues like siblings. (The Economist, November 28, 2015)

The problem to *preserve power and control* of the Samsung empire was solved by building a byzantine ownership structure, a roundabout circular shareholding. It starts with Cheil Industries (formerly Samsung Everland) which practically functions as the group's holding company. It controls Samsung Life Insurance which in turn controls Samsung Electronics, the flagship in the group and crown jewel. Samsung Electronics then controls Samsung Card which holds a sizeable share in Samsung Life. With this arrangement, the Lee family controls the entire group through other people's money. (Kim H.J. 2014, pp44-46)

## **Large Enterprise**

The *chaebol*, with Samsung in the forefront, gained market dominance by using all the tools in the bag such as resource allocation, entry barriers, competitive advantage, political power, and vertical and horizontal integration. When the national strategy of import substitution was replaced by an export-led development in the 1960s, the government targeted key strategic industries for special support, and these industries were allocated the bulk of the country's investment and foreign loans. Preferential treatment in the form of finance, tariffs and tax credits were given to the best performing firms. They built up huge economies of scale which

needed further government intervention in the form of financial and tax benefits, and provided the larger corporations preferential access to other targeted industries. The entry of other smaller firms who could not easily raise the required capital was thereby restricted. (Jwa&Lee 2004, pp4-5)

The government intervention into industrial policy caused various problems. First, the visible hand of government is not perfect, and the targeting of selected industries and companies inevitably led to resource misallocations. Second, permanent guidance and intervention sometimes stifled the urge to innovate and improve efficiency, and even led to 'moral hazard'. Third, as the leading *chaebol* became ever larger and thus ever more important for the nation's economy, the cost of failure grew and they became 'too big to fail'. And fourth, this preferential industrial policy gave room for rent seeking, and the lobbying power of the big companies and subsequent cases of corruption eventually caused a strong anti-*chaebol* sentiment prevailing until today. (Jwa&Lee 2004, pp6-7)

But the conglomerates thrive now because they also make good products. Samsung prospered on the strength of its electronics company which made huge bets on tiny batteries, low-cost flat panel TV's, and especially smart phones. But also the other firms in the group are leaders in Korea, and some of them on a global scale such as Samsung C&T, Samsung Heavy Industries, Samsung Biologics and others.

In employing almost half a million people and accounting for more than 20 percent of Korea's GDP and of its exports, the Samsung Group is huge, it really is 'too big to fail'. Some South Koreans even call their country "The Republic of Samsung".

So sprawling is Samsung's empire today that one could lead a Samsung-only life: You can be borne in Samsung Medical Centre, attend a Samsung-owned university, live in a Samsung housing complex, buy your life insurance from Samsung, watch the Samsung-owned baseball team on a Samsung TV set paid with your Samsung credit card or Galaxy smart phone. If you pass the tough GSAT (Global Samsung Aptitude Test) you could land a well-paid job at a Samsung subsidiary, and your holidays you could spend in a Samsung resort. (New York Times 2015)

Samsung is Korea's best known company and greatest economic success but also the subject of much controversy. Economists, owners of SMEs and some politicians think that Samsung not just powers the country but overpowers it. They accuse it to elbow into new industries at the expense of smaller businesses, to limit choices for Korean consumers and sometimes to collude in price fixing while hindering investigations into it. And they detest the closed-door wealth of the Lee family, and the means chairman Lee Kun-hee employs to pass power to his son. "Samsung manages the legal world, the press, the academics and bureaucracy", said Lee Jung-hee, a liberal presidential candidate in a televised debate in 2012, "it has the government in its hands." (Washington Post 2012)

## Goals

Samsung pursues all the traditional goals of maximum and satisfactory profit, increase of revenue, gaining of market share, securing long-term existence and investing in growth and diversification. Revenue of the group stood at \$305 billion at the end of 2013, or 23 percent of Korea's GDP. It was number one in the country, surpassing the Hyundai group. Samsung Electronic's net profit alone amounted to \$22 billion.

Samsung's success comes from targeting areas that are small but growing fast. They should also be capital-intensive as this would make it more difficult for competitors to follow. Once a decision is made, cash pours in and production moves to very high volume as fast as possible to gain price advantage over established firms. Several years ago the company determined to go into technologies where it was barely active, and to invest \$20 billion over ten years in solar panels, light-emitting diodes (LED), electric-vehicle batteries, medical devices and biopharmaceuticals. It was a step from "infotainment" to "lifecare", in the firm's jargon. "The majority of our products today will be gone in ten years" told chairman Lee Kun-hee his executives in January 2011. "To survive", he said, "the company must not only go into the new businesses it has identified, but open itself up to work with partners and even make acquisitions". (The Economist, October 1, 2011)

When it comes to Corporate Social Responsibility (CSR), Samsung is sometimes praised as leading the way. Founder Lee Byung-chull's philosophy of 'business patriotism', and Lee Kun-hee's declaration to make Samsung a 'first-class global corporation' show a willingness of Samsung's top management to give back to the society in which the firm developed. Since at least the 1960s the company has understood that it can strengthen its reputation and influence by engaging in philanthropic activities and publicising its contributions. (www.amrc.org.hk 2014)

Today, the CSR aspect of the business is managed by Samsung's CSR Committee. It releases an annual Sustainability Report describing in detail its CSR programmes and initiatives. The CSR activities go into four main directions: social contribution, green management, health and safety, and sharing growth. (www.research-methodology.net 2015)

However, despite increased spending on CSR, public distrust of large corporations in general, and Samsung in particular, continues to grow. To dispel this perception it is not enough to provide donations or volunteer work but it is essential to implement CSR activities which aim at uprooting tax evasion, embezzlement, fraud, corruption and unfair labour practices. And the implementation of those initiatives must then be communicated clearly to the public and stakeholders. Without them, donations and volunteer activities will have even negative effects as there are merely seen as a CSR show. (Kwon 2014, p24)

## 4.3. SOCIO-ECONOMIC IMPACT

### 4.3.1. CAPACITY BUILDING

Capacity building is an investment in people, institutions and practices that enable countries to achieve their development objectives. Business can support it by skills and training programmes as well as informal knowledge and technology exchange, thereby engaging employees, suppliers and communities to align their needs and to give a positive impact on development.

#### AYALA

In many of Asia's emerging markets, family businesses have long fostered economic development by delivering public goods better than local governments. By providing solutions that local institutions cannot, these private companies build, at the same time, profitable business empires. "These entrepreneurs are public spirited because they must fill the institutional void and compensate for the inadequacies in their environment. Virtually all well-run large entities in Asia do this", according to Harvard University professor Tarun Khanna in an interview with CNBC. Family-run business, in particular, is at the forefront of this phenomenon, Khanna added, pointing to the Philippines' Ayala Corporation as a prime example. (CNBC 2016). Ayala's 2014 Sustainability Report lists the concrete measures done so far:

##### *Countryside Development*

BPI (Bank of the Philippine Islands) expanded its services to sectors previously unbanked or unreached by financial institutions. By the end of 2014 it had outstanding loans of \$ 2.1 billion to various businesses and services, aiming to boost countryside development. To aid the financial literacy of new rural clients, it evolved from a pure lender to a financial advisor.

##### *Development of Resilient Communities*

Prior to developing new building projects, Ayala Land scrutinises the prospective sites as to high risk of liquefaction, high slope and areas prone to earthquakes. It also deliberately plants species which are proven to be more resilient to extreme weather changes. It developed, in 2014, a total of 410 hectares of parks, green spaces and refuge areas in the districts of Makati, Bonifacio Global City and Navali.

##### *Improving Pedestrian and Transit Connections*

A four-kilometer network of pedestrian underpasses, elevated walkways and covered walks was built throughout the 210 hectares Makati development, benefiting about one million people. The need to use cars has decreased and a healthy culture of walking has emerged.

Under the public-private-partnership (PPP) programme, the Muntinlupa-Cavite Expressway



(MCX) was finished by AC Infra. The four kilometre, four lane tollway will cater for 25.000 users daily and should benefit three million people travelling between southern Metro Manila and Cavite province, cutting travel time by 45 minutes and saving 10 million litres of fuel and 1.3 billion man-hours yearly.

#### *Resiliency of Water Assets*

In 1997 Manila Water Co. took over the concession for water supply to low-income communities, laid the necessary expansions and connected them to the main lines. Piped-in water was provided and billed monthly, at a tenth of the price of water sold off trucks. The supply was then extended from low-income users to a wider public such as schools, markets, hospitals, orphanages and jails. ([www.abs-cbn.com/business](http://www.abs-cbn.com/business) 2008).

Now the infrastructure, crucial to millions of people, is made more resilient to climate change and natural disasters, such as earthquakes and typhoons. New transmission lines are laid, seismic joints and retrofitting installed, as well as pipe bridges and mechanisms to prevent pipe breaking are devised.

#### *Resilient Telecommunication*

Typhoon Hayan in 2013, the strongest storm to ever hit the Philippines, had severely tested the resilience of Globe Telecom's network. In response, Globe further standardised its response process and set up CAT, a Crisis Action Team, which showed its mettle when responding to new calamities such as the typhoon Glenda in 2014. It was the first telecommunication company to recover in critical areas after the storm. Over 7.000 modern networks are now installed nationwide, serving more than 46 million mobile and broadband subscribers, with a 90 percent restoration capability within 72 hours after a storm, typhoon or flood.

#### *LeadCom*

In 2012, the Ayala Foundation launched LeadCom in an effort to "create communities where people are creative, productive, self-reliant and proud to be Filipino". Within three years, it has trained 953 youth leaders and 754 facilitators who implemented 97 projects touching 6.771 direct beneficiaries and mobilising 827 volunteers from local stakeholders. The aim is the training and empowerment of community-based youth organisations by helping them design and execute projects that address their communities' most pressing concerns. It enables young leaders to make meaningful contributions to the development of their communities. "The youth groups will undergo the ideation and project management phase with workshops and capability sessions to effectively implement their proposed project. LeadCom will strengthen our youth's desire of being active citizens. It will continue to transform lives which someday will make the difference to our society's needs", said Sabrina Garcia-Balais, a team leader. ([www.balaymindanawgroup.wordpress.com](http://www.balaymindanawgroup.wordpress.com) 2015)

## **SAMSUNG**

According to the Asia Monitor Research Centre, a Hong Kong based NGO focusing on Asian

labour concerns, Samsung's CSR activities fall mainly in the category of philanthropy. It does the majority of its social giving through its main affiliated foundations which include the Samsung Foundation of Culture, the Samsung Life Public Welfare Foundation, the Samsung Welfare Foundation and the Ho-am Foundation. It spends more on philanthropic activities than any other Korean corporation, and its donations are supplemented by employee donations of money and time. The same paper also alleges that, besides promoting its public image, Samsung's social contributions enable the government to neglect social services by projecting the idea that corporate benevolence can solve fundamental social inequalities. (Liem 2015).

This is, of course, a point of view by a rather biased NGO but it is also frequently voiced by public and media. The Samsung group is certainly keen to burnish its negative image by overemphasising its "do good" activities but there are also facts and numbers which substantiate its scope of social contributions and community support:

#### *Employee Voluntarism*

Samsung Electronics (SE) installed a programme to create a culture of sharing and giving back to community by encouraging its employees to volunteer their time and talents. In 2013, 283.000 employees donated more than 1 million hours of volunteer work, or 11.1 hours per employee. (Samsung SR 2014).

#### *Mentoring for Secondary School Students*

SE offers a "Dream Monitoring" programme which introduces various job areas in Samsung Electronics to middle and high school students. In 2013, 1.500 employee mentors met with 13.000 students. (Samsung SR 2014).

#### *Nanum Volunteer Membership*

Led by SE employees, college student volunteer groups engage in various social services such as assisting underprivileged people in local communities and formulating ideas to solve social issues. For example, in collaboration with the Samsung Metropolitan Transport Corporation, they installed rearview mirrors in 40 elevators to prevent safety accidents by handicapped people in wheelchairs. (Samsung SR 2014).

#### *Other social contributions*

- Samsung Tech Institute encourages independence and self-reliance among young people via systematic vocational training. There were 15.800 beneficiaries by the end of 2014.
- Samsung SMART School fills an important gap in global education by providing an educational environment for students living in disadvantaged areas. As of 2014, 245.750 youngsters benefitted from this programme.
- Samsung Solve for Tomorrow was set up to tackle important social issues. The programme engages students and NGOs to identify pressing social problems, and to find and implement solutions to them. ([www.research-methodology.net](http://www.research-methodology.net) 2015).

### 4.3.2.ECONOMIC GROWTH

Economic growth is defined as the increase in the value of goods and services, and by providing them big business is a major contributor.

#### AYALA

The 180-year-old company has always been a significant contributor to development and growth in the Philippines. According to its president, Fernando Zobel de Ayala, "we constantly look for ways to give back to our country through Ayala's businesses, through the Ayala Foundation and through our individual efforts."

By the end of 2014, Ayala's listed companies accounted for 20 percent of the Philippine Stock Exchange index capitalisation. The market capitalisation of the entire Ayala group amounted to \$10 billion, and it employed 42.800 people. (www.imd.org 2015). It owns the nation's largest property developer and the biggest bank by capital as well as its second-largest telecommunication company and one of Manila's two water providers. (www.bloomberg.com 2014).

In 2014, consolidated revenues - or "economic value generated and distributed" (as the company's sustainability report calls it) - reached \$7.384 million, obtained by the following companies (in \$ million):

Ayala Land	2.140
BPI	1.254
Globe	2.340
Manila Water	370
IMI	858
Ayala Auto	277
LiveIt	130
AC Energy	15

From this total, the group distributed

- \$ 3.456 million (47 percent) to suppliers and through other operating costs
- \$ 782 million (11 percent) to employees, in wages and benefits
- \$ 985 million (13 percent) to providers of capital, in the form of dividends and interest
- \$ 697 million ( 9 percent) to governments, in taxes and licenses
- \$ 4 million to communities through Ayala Foundation and other charitable institutions (Ayala SR 2014)

The Ayala group's contribution to the overall Philippines economy in 2014 was 2,6 percent of a GDP of \$285 billion. (www.focus-economics.com 2017)

Apart from the above figures which just illustrate a certain point in time, there are several future investments planned throughout the group:

*AC Energy Holdings*, the power generation company, is targeting to install 1.000 megawatt (MW) in capacity by 2016. The company is on track to reach this goal after securing finance for the construction of a 4x135 MW coal-fired plant in Kauswagan, Lanao del Norte in Mindanao. Apart from this project, AC Energy is also involved in a 2x600 MW power plant in Bataan, situated next to the Mariveles plant in which it holds 17 percent. It also has a joint venture with two other power companies with the aim to build a 2x135 MW coal-fired plant in Calaca, Batangas. As to renewable energy, AC Energy has completed several wind power projects in 2014, bringing its total wind power capacity to 133 MW. (www.philstar.com 2015)

In *transport infrastructure*, the Ayala consortium won the bid for the redevelopment and extension of LRT Line 1, the largest PPP project undertaken so far. It is a significant addition to its portfolio of infrastructure PPP projects which include the Muntinlupa-Cavite Expressway and the automated rail ticketing system. Further PPP investment plans include the Aquino International Airport Expressway and the Cavite-Laguna Expressway. (Ayala Annual Report 2014).

*Ayala Land* continues to target three segments: Through Alveo it is serving the upscale market, building residential and office space in prime locations such as Bonifacio Global City, Circuit Makati and Makati Central Business District. Avida is strengthening its position in the middle-income segment with vertical projects in Metro Manila and by building on the steady demand for lots and houses in Nuvali and other mixed use developments in Altaraza and Alviera. The low-income segments Amala and Bellavista continue to launch new projects, extending Ayala Land's reach across the country. (Ayala SR 2014).

*Globe Telecom* is the major provider of telecommunication services in the Philippines, offering fixed line, mobile and broadband solutions. On the mobile telephone side, it increased its number of subscribers to 44 million in 2014, up 14 percent over the previous year. As to broadband, it ended the year with 2.8 million subscribers, achieving strong growth across fixed broadband, wireless broadband and long-term evolution solutions. (Ayala Annual Report 2014).

For 2015, the Ayala group plans \$4.1 billion in capital expenditures, the highest ever spending target for any given year. (Ayala SR 2014).

## SAMSUNG

"In Korea, three things cannot be avoided: death, taxes and Samsung." This sentence is widely heard in the country as Samsung, South Korea's biggest conglomerate, has almost half a million employees involved in electronics, machinery, chemicals, pharmaceuticals, construction, shipbuilding, finance, insurance, advertising and services in various other fields. (www.bestchinanews.com 2014)

According to "Samsung Profile 2014" (figures as per end of 2013), total revenue of the conglomerate amounted to \$305 billion, or 23 percent of Korea's GDP of \$1.306 billion. (In comparison, government spending makes up about 20 percent of GDP). It employed 489.000 people of which 286.000 worked at Samsung Electronics, the crown jewel in the group and the country's biggest individual company. Revenues by the different affiliated groups of companies were, in billions of USD:

Samsung Electronics	217
Samsung Heavy Industries	13
Samsung Chemicals	11
Samsung Financial Services	37
Samsung Services & Others	27

The group paid \$6.2 billion in taxes (The Kyunghyang Shinmun, 15.01.2014), and Samsung Electronics alone represented 21 percent of the total market capitalisation of Korean stocks. Its mobile phone exports amounted to \$10.4 billion, or 2 percent of total exports (www.bestchinanews.com 2014)

But again, more interesting than mere year-end figures is the outlook for future growth. "Samsung Profile 2014" highlights a figure of \$16.1 billion as investment into future technologies. And in August of 2014, Samsung Group announced that it had selected 10 research items by its Future Technology Promotion Project in which it will invest \$1.4 billion over the next ten years. The items selected will be in the three technology fields of energy storage, energy harvesting and Internet of Things (IoT) security. It is also planned to raise a \$1 billion Future Technology Promotion Fund for investment in material technology and ICT (information and communications technology). (www.businesskorea.co.kr 2014)

*Samsung Electronics*, in its "Vision 2020" has drawn up a specific plan to reach \$400 billion in revenue and to become one of the world's top five brands by 2020. To achieve this goal, it has established three strategic management demands: "Creativity", "Partnership" and "Talent". (www.slideshare.net 2015). It plans to use its \$56 billion cash fund, held at the end of 2014, to fund growth including future mergers and acquisitions. Mr. Yi, its investor relations chief, told Reuters in an interview that "dividends and other forms of shareholder returns are responsibilities that the company has to shareholders, so we will make efforts to meet them. But our primary objective is growth and that is what we are communicating to our shareholders". (www.tech.firstpost.com 2015). Some concrete plans for 2015 were

- to start mass production of industry's first 8-Gigabit LPDDR4 mobile DRAM
  - to expand Galaxy Note series with Galaxy Note 4 and Galaxy Note Edge
  - to extend partnership between BMW and Samsung SDI for delivery of further battery cells.
- (Samsung Profile 2014)

*Samsung Heavy Industries* will make every effort to maintain its position as the world's number one builder of drill ships, LNG carriers and FPSO (Floating Production, Storage and Offloading vessels). It is developing and building the first Arctic shuttle tanker and Arctic ice-breaker container ships. It will also launch the hull of Shell's "Prelude", the world's largest floating liquefied natural gas facility, and build two offshore platforms for Norway-based Statoil. It will operate the electricity and electronics business by converging its shipbuilding and offshore business with digital technology. (www.samsungshi.com 2016)

*Samsung C&T*, the trading and investment group, will - besides the traditional trading in industrial commodities such as chemicals, steel and natural resources - focus on organising projects such as power plants, renewable energy and infrastructure development. A successful execution of a huge wind and solar power project in Ontario, Canada is well under way. Its Engineering & Construction arm (which had built the Petronas Twin Towers in Malaysia and the Burj Khalifa in Dubai) is participating in some of the largest infrastructure projects worldwide such as the Riyadh Metro in Saudi Arabia and the Mersey Gateway bridge project in the UK. It also has won the contract to build the first nuclear power plant in the United Arab Emirates. (www.samsungcnt.com 2016).

*Samsung BioLogics*, the conglomerate's biopharmaceutical business unit, targets lucrative emerging sectors in order to reach its ambitious annual growth rate of 10.2 percent and \$53billion of sales in 2020. It also owns more than 90 percent in *Samsung Bioepis* which produces biosimilars, i.e. generics of biologic drugs which lost their patent protection. In order to achieve the group's aim to be among the world's top ten pharmaceutical companies by 2020, Samsung Bioepis plans to list on Nasdaq and to raise funds for research and development of seven new biosimilar products. (www.koreaherald.com 2015)

### **4.3.3. EDUCATION**

Education is one of the most powerful tools to reduce poverty and inequality, laying the foundations for sustained economic growth. Business can contribute not only by investing in secondary education and technical training to ensure that labour has the necessary skills for employment but also by fomenting primary education in order to build a bigger stock of educated young people and by giving economic support to communities for this purpose.

## AYALA

### *Employee Training*

All regular employees of the Ayala group are given the chance to advance by institutionalised training and career growth programmes. The average training hours per employee increased by 31 percent, from 22,20 hours in 2013 to 29,17 hours in 2014. (Ayala SR 2014)

### *LEAP*

Ayala's top management recognised that a gap was opening between growth of business opportunities and the retirement of seasoned managers, and that it had to develop at least 450 leaders over the next three years. To remedy this situation it installed LEAP (Leadership Excellence Acceleration Programme), in cooperation with Harvard Business Publishing's *Leadership Direct*. This is an 18-week programme, followed by a three-month period devoted to team projects, with a strong focus on building holistic general management practices, helping Ayala in its long-standing commitment to "pioneer the future". (Harvard Business Publishing 2012).

### *LeadCom*

LeadCom is an initiative by Globe Telecom and the Ayala Foundation Inc. to develop, inspire and nurture students to become future leaders. The three-day leadership camps, comprising of about 100 college students from various schools each time, are set up all over the country. At the end of the course, participants will have to apply their leadership learnings to projects which will benefit their chosen community or school. Small grants are given to the leadership teams to help them plan and implement their project within a three-month time frame. "Globe is committed to helping transform the youth into future leaders through ICT. We know the importance of communications, both mobile and internet, in making the youth connected, informed and empowered. Ayala Foundation, on the other hand, is also dedicated to developing young leaders. Thus, LeadCom has become an important platform where we can collaborate on this common goal," said Rob I. Nazal, head of Globe Corporate Social Responsibility. (www.globe.com.ph 2015).

### *University of Nueva Caceres*

On July 28, 2015 Ayala announced that it had invested \$9.8 million for a 60 percent stake in the University of Nueva Caceres in southern Luzon, its first equity investment in a university and giving the company a majority of its board seats. The university has some 7,000 students and provides education in a wide range of fields, including economics, law, engineering and nursing. "There is strong global demand for Filipino talent," said Ayala Corp.'s CEO Jaime Augusto Zobel de Ayala. "Our vision is to deliver high quality, affordable education that can significantly enhance the employability of graduates," (www.asia.nikkei.com 2015)

### *Ayala Book Drive*

Ayala Foundation celebrated the National Reading Month 2016 by donating 200,000 storybooks to 200 schools. The books show different facets of Filipino identity, history and culture, and the aim is to rouse in children love for the written word and to nurture their

imagination and creativity. "Education is a key programme for us, and we remain convinced of its power in freeing us from ignorance," said Ruel Maranan, president of Ayala Foundation. (www.lfc.org.ph 2016)

### *Text2Teach*

The programme uses mobile technology to reach public schools in remote areas. A mobile phone is connected to a TV set inside the classroom and downloads learning packages for grade 5 and 6 students, with modules in English, math, science and value education. By providing interesting technology-based school material, Globe Telecom and Ayala Foundation help public schools to achieve better learning gains and lower drop-out rates. As of 2014, Text2Teach has reached 315.000 students. (Ayala SR 2014)

### *CENTEX*

CENTEX (Center of Excellence in Public Elementary Education), operating in Manila and Batangas, provides underprivileged public school students with quality education equal to private schools. Besides an enhanced curriculum, students also receive clothing and transportation subsidies and a feeding programme. CENTEX also fosters a strong partnership between students' parents, families and communities. Especially parents share their time and skills by volunteering to help in schools' daily activities. 1.371 students graduated in 2014, with 100 percent literacy rate compared with the national average of 88 percent. (Ayala SR 2014)

### *APEC Schools*

APEC Schools, a joint venture between the Ayala corporation and UK's Pearson PLC, is the most prominent - and controversial - of Ayala's education programmes. It is a chain of secular private high schools, utilising a special curriculum, developed internally, and a progressive teaching method.

One side claims that it offers affordable but high quality education, providing an alternative to overcrowded government schools and the rising fees of other private or parochial schools. It started its operation in 2013 in 12 locations with 1.335 enrolees, with the goal to establish a total of 70 schools with 45.000 students within the next five years. Targeted to lower and mid-income Filipinos and aligned with the Department of Education's K-12 curriculum, APEC strives to provide the best possible secondary school education at the lowest possible price. The schools charge approximately \$520 in annual fees including books, placing it in the lowest quartile among private high schools in the Philippines. Furthermore, the schools are located strategically at the centre of the different communities in order to lower transportation costs for pupils. (www.educationinnovations.org 2015 & Ayala SR 2014)

Others, however, think that APEC Schools' claim to supply "affordable" private education to large numbers of "economically disadvantaged" Filipino students willing to pay for basic education is a hoax. In reality, the schools are hardly affordable to lower-income earners as the lowest-income families in the Philippines (class E) would have to expend, on average, approximately 40 percent of their annual household income to send one child to an APEC school. (The Civil Society Network for Education Reforms 2016). According to research



commissioned by Education International (an organisation of educators in 170 countries across the world), APEC Schools are a chain of for-profit secondary schools aimed to supply cheap labour to global industrial capitalists. (www.bulatlat.com 2015). And Curtis Riep, in his paper "Corporatised Education in the Philippines" 2015, states that APEC plans to expand the chain to 500 schools and 250.000 students. "An APEC student paying at least \$520 per year for classroom services and with this rate, 250.000 youth paying \$520 is a very, very lucrative business venture for Ayala and Pearson", he concludes. (www.bulatlat.com 2015)

## **SAMSUNG**

### *Sungkyunkwan University (SKKU)*

SKKU, now a private university with campuses in Seoul and Suwon, was founded in 1398, two years after Seoul became the capital of Korea's Joseon dynasty. After a not so successful partnership with Samsung between 1965 to 1977, which was eventually terminated, a broad alliance with the Samsung group was established in 1996, going beyond research and education. Samsung saw a strategic opportunity in the medical field and set up the now world-famous Samsung Medical Center (SMC). SKKU, one of the best medical schools in Korea, could then provide first-class human resources and research capabilities to support innovation. SMC would such become a key in Samsung's medical technological strategy, serving as a living laboratory for its electronic and life science divisions. Engagement with Samsung has made SKKU a more entrepreneurial university, professionalising its administration and research management. The price for this is Samsung's strong involvement in the university's management. SKKU is part of Samsung's human resource system, and senior administrative staff is required to pass the Samsung Standardised Aptitude Test, just like any other potential candidates in other Samsung group companies. Most of the equipment at the university such as computers, laptops and software is supplied by Samsung Electronics, and the catering is provided by Samsung Everland. (www.triplehelixassociation.org 2015)

### *Samsung SDS Multi-Campus*

Samsung SDS was established in 1985 as a subsidiary of Samsung Electronics, with the purpose to provide information technology services, and by 2015 it employed a staff of 7.000 IT-related specialists. SDS operates "Samsung SDS Multi-Campus", the largest IT education institute in Korea. Employees are required to dedicate 10 percent of their working time to education. (en.wikipedia.org)

### *Samsung Global Scholarship Programme (GSP)*

Samsung GSP is a talent programme set up by Samsung Electronics. Recognising the need for high-quality managers with strong business skills, leadership potential and career focus, GSP was created to raise a very selected group of individuals with the potential to become "Future Global Leaders" in the various subsidiaries of Samsung Electronics, with the aim to eventually replace the layer of Korean-national management, thereby differing from the usual *Chaebol* practice. The programme aims at giving the future leaders an international network and the opportunity to share ideas, learn from world-renowned leaders, work collectively and to be prepared for global challenges. (en.wikipedia.org)

### *Samsung Smart School*

Samsung Smart School provides students living in underserved areas with improved education tools, tailored to the levels of different regions and aiming to resolve the regional education divide. (Samsung SR 2014). Samsung School is a digital education solution that integrates a Samsung Galaxy Note tablet with interactive software, in order to help teachers engage their students and to make classroom management more effective. It is composed of the following key features:

- **Interactive Teaching:** It supports in-class interaction by using screen sharing, screen monitoring, student device control and others.
- **Class Management:** It aids teachers in course administration, content management, user management and communication.

The solution incorporates an e-board and network environment in each classroom. A central server in the school stores course content, and teachers use either tablet or PC which are mirrored to the e-board and can share their screens with the pupils. The wireless screen mirroring is enabled through a Samsung AllShare Cast Dongle accessory and students can participate in an interactive class using their tablets. (www.myldi.com 2015). The e-board makes cross-group collaboration possible regardless of geographical boundaries. It can access the internet, video conference, embed the Note PC and connect it to the lab's Note PC's. The programme helps teachers to engage with the pupils and to control the digital classroom. They can track the activities of their students and provide private, personal coaching based on the student's understanding level with screen monitoring. (www.guardianlv.com 2015). Since 2012, Samsung Electronics has set up over 2.460 Smart School initiatives, offering students and teachers an engaging environment in which to educate tomorrow's talent. (www.news.samsung.com 2016)

### *Junior Software Academy*

Samsung Electronics has developed and operates an education curriculum in which elementary, middle and high school students are trained in critical thinking and problem solving by familiarising themselves with software and coding. In the process they also have the chance to improve their language and math skills. In 2013, pilot programmes were operated in 46 schools in Seoul and Incheon, reaching 1.160 elementary, middle and high school students. The programme is meant to be expanded to 40.000 pupils by 2017. (Samsung SR 2014)

### *Mentoring Scholarship Programme*

The Mentoring Scholarship Programme selects students from underprivileged backgrounds who show talent and potential in different fields. It provides scholarship funds and mentoring to develop students' self-esteem under the educational and emotional tutelage of their appointed mentors. The programmes are divided into three main categories who are again subdivided:

#### *1. Dream Scholarships, divided into*

- **Dream Scholarship:** Supports middle and high school students from financially disadvantaged backgrounds.
- **High One Dream Scholarship:** Is funded by High One (ski) resort and supports students residing in the abandoned mine areas of Kangwon province.

- SOS Scholarship: Provides financial aid to high school students faced with adverse family situations and school maladjustment.
2. *Scholarships for Talented Students by Field*, divided into
- Science-Arts-Sports: For underprivileged students who demonstrate excellence in science, arts or sports.
  - Dream Class Scholarship: Supports outstanding high-school students among the programmes with funds from Samsung.
3. *Dream Up Scholarships*: Supports the Mentor Together Programme and self-development programmes for scholars.
- By the end of 2015, a sum of 8.852 students was enrolled in these programmes. (www.sdream.or.kr 2015\)

#### *Finance Education for Youth*

Samsung Securities founded, in 2005, the Youth Economic Academy to teach basic economic concepts in day-to-day living to youngsters from fourth grade elementary school to third grade high school in Korea. Students learn, through play, real life economic features such as savings and investment. Employees of Samsung Securities act as instructors or contribute to running expenses. By the end of 2015, 168.000 students had benefitted from the programme. College students also participate as instructors in a network of volunteer groups called YAHU. Currently 180 students operate in ten communities scattered throughout the country. (www.businesskorea.co.kr 2015)

But, as it is often the case with any Samsung initiative or activity, there is also some darker side to it. Chung Nam Samsung Academy in Asan, South Chungcheon province, an autonomous high school funded by the Samsung group, was built mostly for the benefit of about 30.000 Samsung employees living in the area. However, it stands accused of infringing upon people's constitutional right to receive education by allocating over 70 percent of openings to children of Samsung group employees. As another 20 percent is reserved for socially disadvantaged pupils, only 10 percent are left for regular students. "Allowing the parents' job to determine whether or not a student gets accepted to school violates the constitutional right to fair education opportunities, while also infringing upon the right to not get discriminated against based on one's financial standard," said Representative Kim Tae-nyeon of the main opposition party. (www.koreaherald.com 2014)

#### **4.3.4. ENTERPRISE DEVELOPMENT**

Small and medium enterprises (SMEs) are a critical contributor to the economic development of a region and offer job opportunities to local citizens. If part of the formal sector they pay taxes and add value, and if well organised they build clusters and gain access to technical and financial support. Big enterprise can contribute by sourcing from local suppliers, and by becoming a valuable business partner through management training, transfer of skills and technology, and provision of credit.

## AYALA

A paper called "Strategic Corporate Social Responsibility Initiative for Large Firms", commissioned by the Philippine Federal Ministry for Economic Cooperation and Development in 2011, states that MSMEs (micro, small and medium enterprises) play an important role in economic development by providing jobs to help reduce countryside poverty. MSMEs constitute about 98.7 percent of total business establishments in the country, of which 91.3 percent are classified as micro enterprises or those with nine employees or less. Combined employment generation by MSMEs accounts for 69.4 percent of total employment, and they contribute 32 percent to GDP. MSMEs are involved in almost every kind of business activity but the top three MSME industries are wholesale and retail, manufacturing, and hotel and restaurants.

It is, therefore, obvious that Ayala, the country's oldest conglomerate, has a significant role to play in enterprise development in the Philippines. "In recent years, we have adopted a more imaginative approach to business and created platforms where social issues are integrated into and made central - not merely adjacent - to business strategy. We pursue sectors with astounding gaps in capacity, accessibility, quality and affordability that are central to the wellbeing of our countrymen," said chairman and CEO Jaime Augusto Zobel de Ayala in a statement at an event called "Accelerating the Future with our Small and Medium Enterprises" in 2016. ([www.sunstar.com.ph](http://www.sunstar.com.ph) 2016)

### *ABAC Sustainable Development Working Group*

Ayala Corp., one of the chief members of this working group, emphasises two ways to improve the development of MSMEs. One is to widen the market for micro, small and medium enterprises which operate mostly outside the Metro Manila area, and to extend their capabilities. This could be done by improving the transport sector so it becomes cheaper to bring goods to the MSMEs and consequently making them more competitive. Another one is to offer and install telecom technology to enable MSMEs to do business in overseas markets. This is already happening in some instances, such as a 200-person company in Cebu providing services to a company in Saudi Arabia, and another one in Metro Manila doing financial analysis for an investment banking group in New York. ([www.business.inquirer.net](http://www.business.inquirer.net) 2016)

### *Microfinance Bank*

Ayala Corp. and two of its subsidiaries (BPI/Bank of Philippine Islands and Globe Telecom) set up, in 2008, Philippines' first microfinance bank to help small enterprise. The bank started with an authorised capital of \$10.2 million and used BPI's wholly-owned subsidiary, Philipinas Savings Bank, as the vehicle for the venture. It extends wholesale microfinance loans to microfinance institutions and offers microfinance products, using mobile telecom technology to deliver financial services and broaden its retail client base. ([www.microcapital.org](http://www.microcapital.org) 2008)

### *Supply Chain Management*

All subsidiaries of the Ayala group are urged to choose and approve suppliers which observe sustainability standards. In order to boost inclusive economic growth, locally based firms and

small businesses are engaged whenever possible. All suppliers undergo a screening process which assesses their health, safety and environmental policies. They are also checked whether they are always legally compliant and adhere to stringent quality standards.

At Ayala Land, vendors have to conform to the company's Vendors' Code of Ethics, and it reviews incidents in the supply chain through its Enterprise-Wide Risk Management System. At Globe Telecom, suppliers have equal chances through competitive bidding and auctions. In case of equivalent proposals, preference is given to local suppliers and proposals aligned with green practices.

The Ayala group keeps an updated list of both reliable and delinquent suppliers through its Ayala ProcurementNet. This, in cooperation with the various supplier screening programmes at the subsidiaries, addresses negative performance and keeps track of repeatedly unreliable suppliers. Regular vendor evaluations are conducted in order to weed out delinquent partners. (Ayala SR 2014)

#### *Engagement Activities with Suppliers*

Globe Telecom has the Business Partner Awards and the Globe Vendor Council, programmes which foster stronger customer/supplier relations. Its vendor clinics and technology briefings enhance learning and management improvement. Manila Water has also established several programmes to improve the relationship with suppliers such as sustainability summits, recognition programmes, technical assistance, monthly safety forums, and risk and traffic management programmes. (Ayala SR 2014)

#### *KPSB (Kabuhayan para sa Barangay)*

KPSB, established ten years ago, enlists qualified cooperatives into the Manila Water supply chain. Regular seminars are held about new ways to increase income and to create business opportunities for poor communities. The programme has now 64 members and \$200,000 in loans have been granted in 2014. Of Manila Water's 280 contractors, about 40 percent are small enterprises, and several of these SMEs are members of the 64 cooperatives under KPSB. (Ayala SR 2014)

#### *Manufacturing Industry*

At the Philippine Manufacturing Summit 2016, the Ayala Corp. chairman said that emerging trends in global manufacturing operations present a unique opportunity for the Philippines to establish itself as a high-value contractor in Southeast Asia. He thinks that the country could be the next Thailand and become an automotive manufacturing hub in the area but on a broader scale this time to produce the next generation of vehicles, so-called "PCs with wheels". He also said that the "country should cover a wide range of areas like policies, incentives as well as mechanisms to empower the micro, small and medium enterprises who are important participants in the manufacturing supply chain." (www.industry.gov.ph 2016)

## SAMSUNG

During the past three decades, the relationship between big enterprise and SMEs in Korea has undergone profound change. Whereas 'low wages and costs' and 'observance of delivery times' were the main criteria in the early eighties, 'quality/precision' and 'level of cooperation' became ever more important. In the mid nineties, two big *Chaebol* (Samsung and Daewoo) started to pay their subcontractors in cash instead of drafts as it was customary until then and provided credit and payment guarantees. Samsung also started to send its engineers to its suppliers for several months and to invest in a training centre for SMEs. (Köllner&Frank 1999)

Today the relationship between the Samsung group of companies and their suppliers has developed into a sophisticated and multi-faceted form of cooperation under the slogan "Shared Growth". Samsung Electronics (SE) has introduced collaboration activities in a systematic manner, on the basis of three principles: 'establishment of transparent procurement', 'enhancement of mutual growth collaboration' and 'spread of a culture of shared growth'. In 2010, it announced the "Seven Mutual Growth Implementation Plans" and has since followed them, They are

1. Response adjustment to raw material price changes and a system of purchasing raw materials and supplying them to vendors
2. Creation of the KRW 1 trillion (\$900 million) "Mutual Growth Fund" which extends the benefits to include secondary suppliers
3. Comprehensive support measures for secondary and tertiary suppliers
4. Introduction of the "Global Best Company" system that showcases best practices
5. Drastic expansion of transaction opportunities for SMEs with strong capacity in the areas of technology and infrastructure
6. Support for technology development aimed to enhance suppliers' future competitiveness
7. Support for suppliers' efforts to recruit qualified personnel.

In 2013, they were expanded by the "Mutual Growth Ecosystem Programme" consisting of:

1. Support for primary suppliers (productivity improvement, R&D support, HR training, Mutual Growth Fund, cultivation of small but strong companies)
2. Support for secondary suppliers (manufacturing and process innovation, on-site consulting)
3. Operation of the Mutual Growth Academy
4. Expansion of pools of patents free of charge.

(Samsung SR 2014)

These lofty goals were then accompanied by concrete measures such as

### *New Technology Contest*

Since 2011, SE holds new technology contests in order to promote technology developments by SMEs. It has so far contributed \$90 million to the Large & Small Business Cooperation Foundation to fund developments at SMEs with innovative ideas and financial constraints. SMEs are selected through careful screening and may receive up to \$900.000 each. (Samsung SR 2014)

### *Mutual Growth Fund*

In collaboration with three banks, SE has set up a support fund of \$900 million for primary and secondary suppliers. Under this fund programme, suppliers selected through a screening process can borrow at discounted interest rates. In 2013, \$800 million were loaned to 804 suppliers, including 413 secondary ones. (Samsung SR 2014)

### *The Industrial Innovation 3.0 Campaign*

In partnership with the Ministry of Trade, Industry and Energy, SE has been active in this campaign since 2013. It will invest \$45 million over the next five years to provide 500 suppliers, including 350 secondary suppliers and 150 SMEs, with yearly consultations on management innovation, improvement of manufacturing sites, support for production technology and productivity innovation. (Samsung SR 2014)

### *Mutual Growth Academy*

Set up by SE in 2013, the academy consists of an education and training centre, a professors council, a consultation centre, a mutual benefit research centre and a youth employment centre. The education and training centre offers programmes to match suppliers' supply-chain tiers and job categories including business management, leadership and specialised job skills. The youth employment centre recommends personnel to suppliers by giving career and employment consultations to young job seekers, supporting suppliers' efforts to recruit qualified people. (Samsung SR 2014)

### *Smart Factories*

In August of 2015, SE teamed up with the Ministry of Trade, Industry and Energy to build more than 600 smart factories across Korea by 2017. Each party will invest \$12,5 million in a special task force to finance the operations of the two-year project, including financial resources management and manpower training systems. SE will lend its manufacturing manpower to SMEs so they can learn from its technological experience and knowhow in manufacturing. "We expect the project to become a new growth model between conglomerates and SMEs," said Kim Jing-ho, president of SE's global technological centre. (www.koreatimes.co.kr 2015)

### *Patent Use by SMEs*

In the beginning of 2013, Samsung group started to let local SMEs use its in-house patents at affordable prices as part of its efforts for "shared growth". "As a good corporate citizen, Samsung plans to create a new ecosystem for balanced growth with local SMEs by offering them full access to use Samsung-owned patents without a big burden in royalties," chief Samsung communications officer Rhee In-yong explained. The conglomerate was the first one to announce such a patent-sharing scheme for SMEs. (www.koreatimes.co.kr 2013)

### *Job Fair for Subcontractors*

In 2012, Samsung group started to organise big-scale job fairs with the aim to recruit skilled manpower for its subcontractor SMEs. Due to Samsung's strong brand image, applicants at these job fairs are confident to find reliable employers in Samsung's partners. To SMEs, on the

other hand, they give the chance to scout for highly educated workers who are usually only interested to work for bigger companies. (www.seriworld.org 2012)

#### *Communication Channels*

Samsung C&T formed several communication channels with partners to respond to suggestions, requests, complaints and questions, by utilising various media platforms and internal systems such as "Cyber Shinmungo" (a website where partners can voice their complaints), Win-Win Calls, regular partner satisfaction surveys and consulting. (Samsung C&T CSR Report 2016)

But apart from "Shared Growth" and the various programmes to support suppliers and SMEs, Samsung also requires compliance to certain standards from its partners. Examples are:

#### *Samsung Supplier Code of Conduct*

SE established a global code of conduct through which it gives a guideline for behaviour and ethical standards, both for employees and suppliers, based on five "Samsung Business Principles":

1. Compliance with laws and ethical standards
2. Maintenance of a clean organisational culture
3. Respect for customers, shareholders and employees
4. Caring about the environment, health and safety
5. Social responsibility as a global corporate citizen.

(Samsung SR 2014)

#### *Supplier Self-Assessment*

SE provides a "Self-Check Sheet" and rectification guide to suppliers so they can check their current compliance levels, identify possible problems, rectify any weaknesses and conduct self-assessments. SE dispatches experts to conduct audits, and in case problems are found which differ from a supplier's self-assessment, penalties are imposed. This way SE makes sure that self-assessments are done correctly and suppliers recognise where they have deficits and can take corrective action. (Samsung SR 2014)

#### *Implementing Social Responsibility*

Samsung C&T encourages its partners and suppliers to implement effective CSR management. When selecting new partners it evaluates their labour and environment management practices. Fashion Group requires its primary and secondary suppliers to sign fair trade agreements, and recommends activities such as expansion of credit to secondary partners, compliance with payment dates, breakdown of costs involved in the delivery of goods, disclosures of cost adjustments and the extension of Samsung programmes to secondary suppliers. (Samsung C&T CSR Report 2016)



#### 4.3.5. ENVIRONMENTAL SUSTAINABILITY

Environmental sustainability means the long-term preservation of ecosystems. It has to consider the needs of the present without compromising the livelihood of future generations. It includes keeping population densities manageable, exploring renewable and preserving non-renewable resources, and keeping environmental impacts at levels at which affected systems can recover.

Every sort of business leaves some environmental 'footprint'. The task is to confine it, i.e. to enact measures to restore the environment after the extraction of resources, to recycle and re-use water, to reduce air pollution, to save energy and make use of renewables, to improve technologies to avoid waste, and to pay increased attention to environmental impacts in the whole cycle of production, packaging and distribution.

#### AYALA

"Our sustainability policy is to protect and conserve the environment while we grow our business. This drives us to innovate and find new business models, processes, products and services that minimise our environmental impacts," reads the foreword to the respective chapter in Ayala's Sustainability Report 2014.

##### *Ecosystems and Biodiversity Protection*

Ayala Land has made sustainability part of their developments since they started to build on the barren earth south of old Manila a few years after World War II, and have sustained it for over half a century. ([www.beta.philstar.com](http://www.beta.philstar.com) 2012). It carefully studies land conditions prior to developing its projects and integrates biodiversity conservation, especially native species, in its business strategy. Its hotels and resorts have been recognised by local and international groups as models of sustainable tourism and biodiversity protection. (Ayala SR 2014)

It has planted, inventoried and monitored a total of 50.200 native trees across all its estates. Native or endemic trees are best adapted to the topography and climate conditions of the Philippines. As such, they have the best chance to grow to full strength and height, and are more suited to survive the numerous extreme weather-events which affect the country every year. "We are happy that our stakeholders are starting to recognise the importance of ecosystems because the proper weaving of nature into the urban fabric helps create value for the developments. The use of more native trees was not just a decision driven by aesthetics but rather grounded on science", said Ayala Land Sustainability Manager Anna Gonzales in an interview. ([www.businessmirror.com](http://www.businessmirror.com) 2014)

A special project is undertaken in partnership with the *El Nido-Tatay* community to increase economic activity through wildlife and marine protection systems. In 2008, Ayala Land started El Nido Biodiversity Online, a constantly updated database of the region's flora and fauna. It also installed a marine monitoring task force active in sea turtle conservation, protection of giant clams, coastal clean-ups and reef restoration. (Ayala SR 2014)

Globe Telecom has enlarged its reforestation programme, in cooperation with several organisations. By 2014, it had planted a total of 418,000 trees, spread over 122 hectares of land in 30 locations. It handed over 650 mobile phones to environment protection agencies and provided insurance to forest guards. Manila Water continued its watershed and reforestation by planting a total of 690,000 native trees on 1,365 hectares to secure primary water sources and to restore forest cover. (Ayala SR 2014)

#### *E-Waste*

In 2014, Globe Telecom developed *Project 1 Phone*, a programme designed to persuade its subscribers and the public in general to return their old mobile phones and gadgets for recycling. The proceeds then go to construct classrooms in Aklan province which were destroyed by typhoon Haiyan. Through this programme, 74,600 kg of electronic waste were diverted from landfills. In addition, a market for professional e-waste recyclers emerged and a stronger culture of e-waste recycling was established in the Philippines. (Ayala SR 2014)

#### *Materials Use*

Ayala constantly keeps an eye on sustainable management of materials and efficient use of natural resources. Prudent use of water, energy and construction material was always part of Ayala Land's working practices. 88.6 percent of the steel it uses contain post-consumer recycled content, and 30 percent of its processed cement contains fly-ash replacement.

IMI (Integrated Micro-Electronics) identifies its key materials with the aim of reducing the use of hazardous substances and preventing the procurement of conflict minerals. It monitors its use of metals, tracks where these come from and guarantees that they were sustainably sourced from conflict-free areas. As to recycling, it recovered almost 500 kg of solder dross in 2014 of which 60 percent is being reused as raw material. (Ayala SR 2014)

#### *Water Efficiency*

Ayala Land follows the Philippine Water Code which regulates water use and extraction. For properties outside the areas covered by Manila Water and Maynilad, it coordinates with local water suppliers to lessen and ultimately eliminate the use of deepwell and ground water. It has a target water metric per type of property, and at least a 3 percent improvement year-on-year is the aim. (Ayala SR 2014)

Manila Water has in place different watershed management and water resources management programmes. Together with the Metropolitan Waterworks and Sewerage System it ensures the sustainability of its water supply. Groundwater protection, biosolids and sludge management and wastewater recycling are part of its operations. To mitigate the impacts of climate change, it has invested in new technologies and adopted energy-efficient measures to reduce not only operational costs but also its carbon emissions. Manila Water and its subsidiaries minimise system loss and maximise water delivery to their customers. Non-revenue water is being brought down by maintaining water supply at optimal levels, adopting the right standards of infrastructure, monitoring of water pumping schedules, and reducing pilferage. (www.manilawater.com 2014)

### *Sustainable Energy*

With the World Bank's International Financing Corporation (IFC), BPI became the first bank in the Philippines to act as financial intermediary for IFC's Sustainable Energy Financing programme which covers energy efficiency, renewable energy and climate resilience. Between 2010 and 2014, BPI granted a total of \$620 million in loans to fund 174 sustainable energy projects. These projects can generate 1.058 gigawatt hours (GWh) of renewable power and save 234 GWh of electricity valued at \$80 million annually, preventing 814.000 tons of CO<sub>2</sub> emissions every year. (Ayala SR 2014)

Northwind Power Development Corp., a company controlled by Ayala Corp., operates a 33 MW wind farm. The project uses 20 wind turbines arranged in a single row and stretches along a nine-kilometre shoreline. It is estimated to offset 57.000 tons of CO<sub>2</sub> emissions. (www.climate-journal.asia.com 2013)

### *Business Risk Assessment*

Together with the World Wildlife Fund for Nature (WWF), BPI Foundation has released a study on "Business Risk Assessment and the Management of Climate Change Impact" on the Philippines. It concludes that sixteen cities are most likely to be severely affected by rising temperatures and frequent typhoons. By highlighting each city's vulnerability to environmental or climate change, including their socio-economic structure and adaption capacity, the study is an invaluable tool for local governments to develop measures mitigating future climate risks. (Ayala SR 2014)

## **SAMSUNG**

"Going Green" can make good business sense. In 2010, Samsung group announced to invest \$20,3 billion in healthcare and green energy over the next decade. The investment would focus on solar cells, rechargeable cells for hybrid vehicles, light emitting diode (LED) technologies, biopharmaceuticals and medical devices. The new businesses are expected to create around 45.000 jobs and generate \$45 billion in annual revenue by the affiliated companies by 2020. Chairman Lee Kun-hee said that it was time to seize the opportunity created by worldwide spending on sustainable energy. "When other global companies hesitate we must move ahead decisively to take this opportunity, and this will also benefit the country's economy," he added. (www.fin24.com 2010)

But apart from grasping new business opportunities created by the worldwide trend in environmental responsibility, Samsung group makes considerable efforts to reduce its own ecological 'footprint'.

### *SMART Green Management Strategy*

The 5 key concepts of the SMART Green Management Strategy adopted by Samsung Electronics (SE) are:

- Sustainability: execute green management as core strategy for sustainable management
  - Market: explore new markets by solving environmental problems
  - Advantage: seek additional advantage of creating profit through environmental conservation
  - Restructuring: conduct business restructuring to be more focused on environmentally friendly strategy
  - Transparency: strengthen transparency to better communicate and cooperate with society.
- (www.rctom.hbs.org 2014)

### *Eco-Product*

SE implemented an 'Eco-Design Process' and an 'Eco-Product Rating Process', from the product planning up to design and development stages, in order to evaluate a new product's eco-friendliness. This process makes it possible to continually enhance the energy efficiency of products by improving their recyclability and reducing the use of hazardous substances in production. It has also installed an 'Eco-Partner Certification Programme' to assess suppliers' environmental quality management systems and to make sure that no hazardous substances are used in suppliers' raw materials. Some results of these eco-conscious product developments are:

- Smart TV: reduced number of LED lamps, 42 percent reduction in annual power consumption
  - Green Memory: eco-conscious DDR4 Memory, PCIeSSD provides ten-fold improvement in system performance
  - Eco-conscious packaging materials for refrigerators: can be reused 40 times, thereby reduction of 7.000 tons of annual CO2 emissions
  - Mobile phone packaging made of 100 percent recycled paper: reducing CO2 emissions by 1,9 tons per ton, compared with average boxes
  - 100 percent recyclable cardboard printer: adopting the Origami assembly method.
- (Samsung SR 2014)

### *3R Water Management (Reduce - Reuse - Recycle)*

SE, aware that water shortage has become a prominent global issue, has established company-wide water resource management policies and conservation goals. In 2012 it has set up a comprehensive water conservation plan which analyses water-related risks and sets targets to reduce water consumption. Following 'Courses of Action' are laid down:

1. Reduce SE's water consumption and minimise risks associated with potential water shortages
  2. Engage employees in the importance of water reduction engraining it into corporate culture
  3. Cooperate with public water policies
  4. Disclose the company's policies and activities on water resource management.
- (Samsung SR 2014)

### *Waste Management*

SE's recycling rate stood at 92 percent in 2013, but the aim is to reach 100 percent of all waste generated by its operation sites by continuously increasing the types of waste recyclable. To prevent illegal processing or transporting of waste to other countries, SE regularly visits waste

processing companies and monitors their compliance with the company's standards and regulations. (Samsung SR 2014)

#### *Air Pollutants Management*

Despite the increase in product volumes, SE could reduce the quantity of pollutants discharged by installing low NO<sub>x</sub> burner boilers, optimal prevention facilities and continuous improvements of efficiency in its production lines. A system to monitor air pollutant concentrations around-the-clock has been installed, and internal pollution standards more rigorous than legal ones are applied. (Samsung SR 2014)

#### *Conflict Minerals*

In the beginning of 2013, the environmental group 'Friends of the Earth' found out that the mining of tin, used in popular brands of Samsung Electronics' smartphones, was destroying tropical forests, killing coral reefs and damaging community life on the island of Bangka in Indonesia. After this revelation, reported in several newspapers and websites, SE committed to take urgent action to tackle the problem in its supply chain. (www.edie.net 2013). Apparently prodded into action by this bad publicity, SE dedicated a whole chapter in its Sustainability Report to conflict minerals. It states that SE "aims to provide consumers with products that go through a legitimate and ethical distribution process, conducting thorough investigations to ensure conflict minerals are not used." (Samsung SR 2014)

#### *HI-GEMS*

Samsung Heavy Industries (SHI) established, in 2011, its HI-GEMS system, an integrated greenhouse gas emission and energy management system. SHI's Geoje shipyard started already in the late nineties its conversion into an eco-friendly work site, and has since invested \$50 million in the installation of waste water treatment and waste incinerators. By investing into additional environmental facilities, improving production processes and promoting the use of eco-friendly technology, it makes every effort to turn its site into the "world's cleanest shipyard". SHI is the country's first shipbuilder to receive the two international standards ISO 14001 and ISO 50001. (SHI Sustainability Report 2015)

#### *Samsung C&T*

Samsung C&T, the founding company of the Samsung group and the fifth largest company listed on the Korea exchange, has - like the other big companies in the group - all the necessary environmental management systems in place.

In addition, and as a shift in its business model, its 'Trading & Investment' group constructed "Soluche", a 3 MW solar power plant in Jindo, Korea. It was a pilot project in order gain knowledge and accumulate experience, and in 2010 it scaled up its foray into renewables by organising the construction of a 1.369 MW solar and wind power plant in Ontario, Canada.

The 'Engineering & Construction' group also followed a shift in business to environmental sustainability, and in 2009 completed the project "Green Tomorrow", a residential complex in Suwon, Korea where energy use was reduced by 56 percent compared to average housing

units, and 44 percent was self-generated by solar and geothermal power generation. New technology such as zero emission and green IT was applied.

'Fashion' group installed and operated 63 solar panels on the roof of its Nonhyeon building in Seoul, and is currently replacing the lights in its headquarter and retail stores to LED. 'Resort' group is installing solar panels in its resorts to generate the power needed to broadcast announcements. Since 2014, it has also been purchasing surplus heat generated by a waste incinerator near Yongin in order to maintain comfortable temperature in its swimming pools. At 'Everland', total energy consumption was reduced by close to 20 percent due to replacing natural gas with the surplus heat of the incinerator in 2015. (www.rctom.hbs.org 2016)

#### **4.3.6. GOVERNANCE**

According to WBCSD, governance is how institutions and structures of authority allocate resources and coordinate and control activity in a society or economy. Business can encourage (or undermine) good governance efforts.

**Corporate** governance is the framework of rules and practices by which a corporation is directed and controlled. It involves balancing the many interests of its stakeholders (financiers, customers, suppliers, management, employees, government and the community). (www.businessdirectory.com)

#### **AYALA**

When it comes to good corporate governance, in 2014 the Philippines ranked second best among countries belonging to ASEAN (Association of Southeast Asian Nations), with companies owned by some of the country's richest families in the forefront. 11 Philippine publicly listed firms made it to the region's top 50 companies practicing good governance according to the specifications of ACMF (Asean Capital Markets Forum) which include rights of shareholders, equitable treatment, role of stakeholders, disclosure and transparency, board responsibilities, and bonuses and penalties. Among the 11 Philippine corporations which made it to the top, four are owned by the Ayala group (Ayala Corp., Ayala Land, Globe Telecom and Manila Water). (Trade Union Congress of the Philippines in www.tucp.org.ph 2015)

Finance Asia, a Hong Kong based lead publication about Asia's financial markets, conducts an annual 'Asia's Best Companies' survey to determine the best performing firms in the region. For 2014, Ayala Corp. finished in first place as 'Best Managed Company', and Ayala Land came fourth. Ayala Corp. also won first prize in the categories 'Best Corporate Governance' and 'CSR Initiatives', and among 'Best CEOs' were Ayala Corp.'s Jaime Augusto Zobel de Ayala and Ayala Land's Antonino Aquino. (www.manilastandard.net 2014)

Prizes and recognitions are one thing but the Ayala group has in fact put several strict measures for governance in place, following GRI G4 (Global Reporting Initiative's Sustainability Reporting Guidelines). Its Sustainability Report 2014 lists the following:

*Board Structure and Process (G4-34, G4-39, G4-40)*

Ayala's Board of Directors is the company's highest body of governance. It defines Ayala's vision, key policies and procedures, and the mechanisms to monitor, evaluate and improve management performance. It makes sure that internal mechanisms for good governance are adequate, and that the company's Code of Conduct and Ethics is properly enforced. It also ensures shareholders' rights. The board consists of seven directors of diverse experience and background, and 71 percent is composed of non-executive and independent directors.

*Board Committees and Performance (G4-38, G4-44)*

The board establishes committees to assist in monitoring the company's performance, to provide the directors with the focus and means to achieve the stipulated goals, and to address governance issues.

*Training of Directors (G4-43)*

An annual Corporate Governance and Risk Management summit is held, and directors are encouraged to attend professional programmes. New directors go through an orientation programme in corporate governance.

*Code of Ethical Behaviour (G4-56)*

The company's Code of Business Conduct and Ethics outlines the general expectations and standards for employee behaviour and ethical conduct. Four core values are laid down:

- integrity
- long-term vision
- empowering leadership
- commitment to national development

*Risk Management (G4-2)*

Risk lies in every business transaction and offers both positive and negative opportunities. An effective risk management has, therefore, to maximise positive opportunities and to avoid or mitigate negative outcomes in order to secure long-term value.

1. *Risk Governance Structure (G4-45)* is applied at all levels within the group. The board retains overall responsibility for risk tolerance and the risk management structure. It is assisted by the

- Risk Management Committee
- Management Committee
- Chief Risk Officer
- Internal Audit Unit

in descending order.

2. *Risk Management Process (G4-46, G4-47)*

Adopting the ISO 31000 Risk Management Framework, the company identifies key risks and directs its resources accordingly, without losing sight of tail-end risks. Management, assisted

by the Group Risk Management Unit, enacts existing key controls and looks for constant improvement. Regular monitoring and reporting on key risks is part of the process.

*Sustainability in Governance (G4-35, G4-36, G4-48)*

The Chief Finance Officer, in his role as Chief Risk Officer, and the Chief Sustainability Officer monitor and report to the board on the company's triple bottom line. Sustainability governance is organised as follows:

*Approving Sustainability Philosophy and Strategy:*

- Board of Directors (Executive Committee, Risk Management and related Party Transactions Committee, Finance Committee, Personnel and Compensation Committee)

*Setting Strategy:*

- Management (Management Committee, Investment Committee, Chief Executive Officer, President and Chief Operating Officer)

*Implementing the Programme and Reporting on Performance:*

- Chief Sustainability Officer and Group Risk Management Unit

*Embedding in Operations:*

- Internal Divisions (Finance, Governance, Corporate Strategy and Development, Corporate Resources) and Business Units.

*Stakeholder Engagement*

The company takes a proactive stance to engage stakeholders, to better understand their needs and to develop shared value. It does this by identifying

- Stakeholder Groups and Channels of Engagement (G4-24, G4-26)
- Areas of Concern (G4-27)
- How We Address Them (G4-27)

The *Stakeholder Groups* are

- Customers
- Investors and shareholders
- Employees
- Partners, affiliates and suppliers
- Regulators
- Industry associations
- Communities
- Media

(Ayala SR 2014)

At the inaugural meeting of FINEX (Financial Executive Institute) in Manila in January 2015, Fernando Zobel de Ayala, president and COO of Ayala Corp., recommended ways to improve governance at local businesses, including disclosure and transparency, upholding the rights of minority and institutional shareholders, rules on representation of independent directors and the implementation of proper board processes and procedures. "More work clearly needs to be done and it is important that we all play our part in continuing to improve the level of



governance for our institutions and for the country," he said. "This will go a long way in building investor confidence which, as we all know, then translates to tangible benefits such as lower cost of capital, better valuations and, ultimately, sustained growth." (www.balita.ph 2015)

## **SAMSUNG**

The sustainability reports of the three biggest companies in the Samsung group (Samsung Electronics, Samsung C&T and Samsung Heavy Industries) consist of a hundred pages or more, but they dedicate just two pages each to the chapter 'Corporate Governance' (although related subjects such as stakeholder engagement and material issues are then listed separately). They are quite similar and start with general statements:

The Board of Directors strives to protect investors' rights and to promote long-term growth of the company. It is responsible for the execution of all matters dictated by the Korean Commerce Act and by the Articles of Incorporation, matters entrusted by the General Meeting of Shareholders, or matters concerning basic guidelines for the operation of the company and execution of business. It employs a set of ethical standards and values to guide its decision making processes and to ensure transparent, responsible business management across all operations. Each policy and decision by the Board of Directors intends to maximise corporate value and to enhance shareholders' rights and interests.

### *Composition of Board of Directors (BOD)*

Samsung Electronic's (SE) BOD is composed of four executive and five independent directors. The latter are selected from a pool of candidates nominated at the general meeting of shareholders, and are experts in a variety of areas including business management, economy, accounting, law and technology. The independent directors meet separately from the BOD's executive directors so they can freely exchange ideas on all aspects of the company's management. (Samsung SR 2014). In the case of Samsung C&T, the BOD consists of four executive and six independent directors, and in the case of Samsung Heavy Industries there are three inside and four outside directors.

### *Committees*

The BOD refers certain matters to committees, to be reviewed by committee members with specific experience and expertise in related fields. All three big companies have created five similar committees:

- *Executive or Management Committee*

Reviews and decides on issues commissioned by the BOD to increase expertise and efficiency in business execution.

- *Audit Committee*

Supervises and supports management through a process of checks and balances to maximise corporate value.

- *Independent Director Recommendation Committee*

Recommends candidates for independent director to be appointed at the General Meeting of Shareholders.

- *Internal or Related Party Transaction Committee*

Helps boost the transparency of corporate management through the Fair Trade Autonomous Compliance System, manages internal transaction within subsidiaries and improves trust of stakeholders.

- *Compensation Committee*

Secures objectivity and transparency of remuneration for directors.

Recently a sixth committee was formed:

*Corporate Social Responsibility (CSR) Committee*

Its task is to ensure legal compliance with ethical issues, oversee the company's contribution to promoting public welfare and to accompany efforts to reach the goal of 'good corporate citizen'. The CSR committee is composed entirely of independent directors who supervise and support the company's CSR and Shared Growth initiatives.

(SE and Samsung HI Sustainability Reports 2014, Samsung C&T CSR Report 2016)

*Stakeholder Engagement*

SE, to burnish its image as a 'global corporate citizen', uses several channels to engage with its stakeholders and to encourage discussion on sustainable management. It has established dedicated communication departments to foster dialogue with specific stakeholder groups, and to collect and evaluate their opinions through forums, surveys and on-site visits. Through these activities, SE tries to identify global trends as well as environmental and social opportunities and risks, relevant to its operation.

*Stakeholder Groups*

- Shareholders/Investors
- Suppliers
- Customers
- Employees
- Local Communities
- Government
- NGO's
- Media

(Samsung SR 2014)

*Communication Channels*

- IR meetings, annual general meeting, analyst day, sustainability reports.
- Shared Growth Day, supplier dialogue fair, voice of customer (VOC) claim processing, informal meetings.
- Customer satisfaction surveys, proactive consumer activities, VOC claim processing, CSR activities.
- Employee satisfaction surveys, labour management councils, counselling centre, 'Samsung LIVE'.
- Community service centres, local community councils.
- Policy meetings, city council meetings, policy-related advisory organisation participation.
- Business networking events, NGO gatherings, CSR activities.
- Press releases and interviews, journalist and editor briefings.

*Materiality Assessment*

SE wants to reply as quickly as possible to issues raised by stakeholders. It has created a

process to identify materiality issues, assess them, and review and confirm them. It then ensures that all materiality assessment results are reflected in management's decision making and departments' business plans.

### 1. Issue Identification

- 1.1 Analysis of external stakeholders' (NGOs/media/industry peers etc.) concerns
- 1.2 Analysis of internal stakeholders' (mid-term strategies, department business plans etc.) concerns
- 1.3 Creation of CSR issue pool

### 2. Materiality Assessment

- 2.1 Review and assessment of impact on business
- 2.2 Review and assessment of social concerns
- 2.3 Review and assessment of megatrends
- 2.4 Assessment and identification of major issues

### 3. Review & Confirmation

- 3.1 Review of control degrees and scope (interviews & meetings with departments concerned)
  - 3.2 Review by internal management (CSR executive meetings)
  - 3.3 Review by external stakeholders (CSR committee & independent verification authority)
  - 3.4 Reflecting report contents in business plans for the following year
- (Samsung SR 2014)

#### *Material Issues*

- Human Resources
  - Health & Safety
  - Eco-Products
  - Water Management
  - Shared Growth
  - Suppliers' Compliance
  - Conflict Mineral
  - Product Accessibility
  - Global Social Contribution
- (Samsung SR 2014)

Samsung, being not only Korea's biggest conglomerate but a giant group of companies anywhere in the world, has of course all the mechanisms of governance and compliance in place. However, there is often a whiff of bribery and corruption wafting through the air of 'good corporate citizenship'.

Kim Yong-chul was Samsung's top legal council before he quit in 2004. Three years later he stunned the public with his 474-page book "Think Samsung" where he accuses Samsung's chairman Lee Kun-hee and his aides of having stolen as much as \$9 billion from Samsung subsidiaries and stashed it in stock and bank accounts illegally opened in the names of

executives. The book also alleges that the persons involved shredded documents, fabricated evidence and bribed politicians, prosecutors, judges and journalists with the aim to ensure that they would not stand in the way of Mr. Lee handing over illegally corporate control to his only son, Lee Jae-yong. But in the end it was concluded that there was no evidence of bribery which surprised Mr. Kim as he had produced a list of prosecutors he had helped to bribe while he was working at Samsung. (The New York Times, April 25, 2010)

In April 2008, however, Mr. Lee resigned as Samsung's chairman after being charged with breach of trust, tax evasion and securities violation. Convicted of the first two, he was ordered to pay \$40 million in taxes and \$96 million in fines but a three-year prison sentence was suspended. On December 31, 2009 South Korea's president, Mr. Lee Myung-bak, pardoned Mr. Lee, wiping his record clean. The president reasoned that the country needed Mr. Lee in his function as chairman of the National Olympic Committee to help win Korea's bid to host the 2018 Winter Olympics. And Mr. Lee Kun-hee re-ascended as chairman of Samsung. (The Economist, January 28, 2010)

In May 2015, Cheil Industries (which functioned at that time as a quasi-holding company for the Samsung group) and Samsung C&T announced a stocks-only merger which caused grave concerns as to corporate governance issues. The proposed merger offered no operational synergies but was all about the Lee's family control over flagship Samsung Electronics. (www.the corporateref.com 2015). By taking over Samsung C&T in an all-share deal, Lee Jay-young would have acquired C&T's 4.1 percent share in SE at the expense of only a few percent of his holdings in Cheil, rather than the billions of dollars he would have to pay the shareholders in an open market. (www.huffingtonpost.com 2015). Not so fast, said Elliott Management, an American hedge fund and the third-largest investor in Samsung C&T, and filed a lawsuit to block the deal, arguing that the merger is unfair for C&T shareholders who would lose \$7 billion due to the huge disparity in the two firms' valuations. But a court in Seoul rejected the two injunction filed by Elliott, and ruled that the ratio by which shares in C&T would be swapped for Cheil shares did not indicate any price manipulation. (The Economist, July 19, 2015). The transaction was, therefore, legal but it was not fair.

#### **4.3.7. HUMAN RIGHTS**

The International Bill of Human Rights and other instruments regulate principles, rules and standards relating to human rights. They often have no binding legal force but can nevertheless provide strong moral guidelines of conduct.

Although it is in principle government's responsibility to protect the human rights of its citizens, business can play an important role. It should fight discrimination by race, gender, disability, age and ethnic prejudice in its companies, its supply chain and in the community. It should set an example and influence positively other institutions, especially if operating in a weak human rights environment.

## AYALA

### *Fostering Gender Equality in the Workforce*

As stipulated in the respective code of conducts and hiring policies of all subsidiaries, Ayala group hires employees regardless of gender and does not tolerate gender discrimination. Among the 37 senior officers at Ayala, 18 - or almost half of the team - are female. In all except one subsidiary there is a female board member.

### *Employee distribution*

*Gender:* At the end of 2014, 41 percent of employees were male and 59 percent female.

*Age:* At the same time, 43 percent were below 30 years old, 50 percent between 30 and 50 years, and 7 percent older than 50 years.

### *Employment for Persons with Limited Opportunities*

All subsidiaries are encouraged to actively seek employees that come from lower-income sectors with few growth opportunities. One example is IMI (Integrated Micro-Electronics Inc.) which has partnered with TESDA (Technical Education and Skills Development Authority) in order to search potential employees from a pool of candidates who were not able to complete schooling. IMI has then created job opportunities for talented and hard-working young people whose prospect for advancement is otherwise limited. In this programme, candidates are given training-for-work scholarships, using technical learning modules designed by IMI and taught by TESDA. The aim is to make them understand specific aspects of IMI's work, thereby increasing their chances to get hired by the company. By the end of 2014, some 300 scholars have finished training and gained employment in IMI.

### *Careers for Street Youth*

Ayala Foundation started a programme called Careers for Street Youth (CSY) which seeks to provide job opportunities to disadvantaged youth. The aim is to improve their chances to gain formal jobs in corporate, business process outsourcing and service industries through life and work skills training, on-the-job training and regular one-on-one coaching and monitoring. The programme ran from October 2013 to December 2014 and trained 68 participants, aged 18 to 25, belonging to the lowest income group. The average monthly income before joining the programme was \$55, whereas after joining it increased to \$179, or by 224 percent.

### *Reaching Out to Indigenous Groups*

Another key programme of Ayala Foundation is the development of the Iraya-Mangyan community, one of the original settlers at the coast of Mindoro Province. The Iraya-Mangyan tribe, one of the oldest in the country, was forced, by development and modernisation, to retreat to the mountains and to subsist on root-crops and fruit, practising slash-and-burn agriculture. Despite their meagre resources they continued to be skilful artisans. But their marginalization left them malnourished and prone to diseases, and their unique culture and traditions were close to disappearing. When their plight caught attention in 1989, Ayala Foundation helped them in their transition to contemporary society by educating about the environment, creating a market for their handicraft, providing basic housing and health service, and setting up primary schools

for their children. In 2014, the Iraya-Mangyan programme had reached over 200 families who now live at the foot of Mt. Malasimbo in Oriental Mindoro. Construction of houses will continue for at least 150 more families.

(Ayala SR 2014)

"We all pay for poverty and unemployment and illiteracy. If a large percentage of society falls into a disadvantaged class, investors will find it hard to source skilled and alert workers; manufacturers will have a limited market for their products; criminality will scare away foreign investments, and internal migrants to limited areas of opportunities will strain basic services and lead to urban blight. Under these conditions, no country can move forward economically and sustain development...It therefore makes business sense for corporations to complement the efforts of government in contributing to social development.", said Ayala's chairman Jaime Augusto Zobel de Ayala already in 1995 at a Conference on Corporate Citizenship in Hong Kong. ([www.business-humanrights.org](http://www.business-humanrights.org))

## **SAMSUNG**

In its Sustainability Report 2014, under the chapter Human Resources, Samsung Electronics (SE) states: "SE guarantees the rights of all workers and prohibits discrimination on gender, education, race and age. The company fully abides by or exceeds all country and state laws and regulations relating to these matters. SE requires that its employees strictly follow its Code of Conduct and has zero tolerance policy for non-compliance."

Its Code of Conduct (which is similar in all the companies of the group) then stipulates:

### *Protection of Minor Workers*

SE adopts a zero-tolerance policy for child labour and suspends transactions with suppliers in case of violations. When hiring new workers, suppliers have to comply with a procedure of age verification, ID card checks, and face-to-face ID checks. When hiring minors, they have to strictly follow local laws and regulations including prohibition of hazardous work.

### *Anti-discrimination*

SE prohibits discrimination based on race, skin colour, age, gender, ethnicity, disabilities, pregnancy, religions, political inclinations, union membership, nationality or marital status.

### *Working Hours*

SE complies with standards recommended by EICC (Electronics Industry Citizenship Coalition), and stipulates at least one day off per week.

### *Voluntary Work*

SE prohibits all types of forced labour including detention and human trafficking. It also prohibits to keep originals of government-issued ID cards. In addition, working conditions are documented in languages understood by all workers.

### *Wage and Benefits*

Suppliers must abide by minimum wage requirements stipulated by local laws, including payment for overtime, subscription to social insurance, and provision of rest and leave. SE prohibits salary cuts as a means of disciplinary action.

### *Humanitarian Treatment*

SE prohibits inhumane treatment of workers such as sexual harassment, sexual abuse, corporal punishment, mental or physical intimidation and abusive language. Sick leave and maternity leave have to be guaranteed in accordance with local laws.

### *Reducing Exposure to Health Risks*

Workers' exposure to health risks encountered in the workplace should be identified, assessed and controlled.

(Samsung SR 2014)

These are in principle iron-clad stipulations which all employees, including management, must follow, and there is no tolerance for not complying with them. However, reality is often different as the following press articles show:

### *Right of Workers to Unionise*

At the end of 2013, SE was accused by IndustriALL, a global union representing 50 million workers, of consistent human rights violations, denying the fundamental right of freedom of association. It cites a long list of abuses by Samsung over the past few decades including allegations that union leaders were kidnapped and beaten by Samsung employees. "Since it was founded 70 years ago Samsung has maintained a strict 'no union' policy, claiming that "employees do not feel the need for a union", it states. (www.ibtimes.co.uk 2013)

### *Child Labour*

Chinese NGO 'China Labour Watch' denounced child labour, student labour exploitation and other violations of Chinese labour law at Samsung's suppliers. The report also accuses suppliers of discrimination in the hiring process, excessive and unhealthy working hours with forced overtime, legal issues regarding contracts, punishments, and poor remuneration systems. Furthermore, it speaks of harsh and often dangerous working conditions that led to workers' injuries. After the release of the report in August 2012, SE announced an internal audit of its 249 Chinese suppliers and confirmed certain violations at 105 companies. (www.reprisk.org 2013)

### *Wage Discrimination*

In August 2016, after apparently decades of wage discrimination and unequal treatment, the female employees of Samsung staged the largest walk-out the company and country has ever seen. Nearly 30,000 strong, the women threw their company badges on the floor, chanting "Together we are one, without us nothing!" With this huge number, the female base had taken the upper hand in negotiations and declared that they would not return to work until all female employees' salaries reached the same level as that of their male counterparts, and three female

members were added to the Board of Directors (currently none). "Samsung can either fire those who have walked out, or swallow their pride and do what should have been done years ago: treat their employees with equal respect and pay," said Shin Jin-ho, one of the leaders. (www.medium.com 2016)

#### *Working Conditions*

Only in 2016 it came to public light that there have been about 200 cases of serious illnesses in Samsung Electronics' LCD and semiconductor factories, including leukaemia, lupus, lymphoma and multiple sclerosis. 76 workers have died, most of them in their 20s and 30s. It was also found out that SE deliberately kept secret the harmful chemicals its workers were exposed to, so that competitors could not learn about its production processes. One former female employee, a breast cancer survivor, reported that Samsung hired "uninformed kids" and treated them like they were "disposable cups." (www.ethicalconsumer.org 2016) Hwang Sang-gi, father of Hwang Yu-mi, a former employee in Samsung's chipmaking factory who died of leukaemia in 2007, said that the company had offered him once \$900.000 in order to keep silent. He also added that Samsung's compensation policies were inconsistent and misled the public with its numbers. Some victims were refusing the offer as it did not even cover medical expenses. (www.english.yonhapnews.co.kr 2016)

Even allowing for some bias by the organisations and NGO's who launched some of these press releases, they still paint a rather different picture than the rose-coloured one shown in Samsung's various CSR reports.

#### **4.3.8. POVERTY ALLEVIATION**

It is not just lack of income which defines poverty but all the social, cultural and political deprivation which comes with it. Poverty means also the lack of social and economic rights such as the right to health, housing, food, safe water and education. And it means the absence of civil and political rights such as the right to personal safety, fair trial and political participation.

Business's main contribution to alleviate poverty is the provision of direct and indirect employment. But it can also help by responsible procurement, support of small producers and peasants, transfer of technology and capacity building. The wealth created by a company operating in a certain community is prone to improve overall standards of living.

#### **AYALA**

Giving employment to almost 43.000 people is surely the most important contribution to poverty alleviation. But there are also other activities through which the Ayala group tries to address poverty and inequality:



### *Promoting Financial Inclusion*

More than 21 million or 56 percent of the total employed population in the Philippines earn just the minimum wage. This segment, plus the earners of irregular incomes, has only limited access to banking services, and such to better means to plan for the future. By offering innovative products and services to improve business opportunities, Ayala strives to help the low-income segment and at the same time achieve its own business objectives.

In this sense, BPI (Bank of the Philippine Islands) has developed Easy Saver, a deposit account with no need to maintain any balance, and which can be opened with just \$4,50. The account gives access to more banking services for low-income groups such as loans and small business financing programmes.

For would-be entrepreneurs wanting to start their own small business but lacking capital and knowledge, BPI has created a programme call Ka-Negosyo that helps disadvantaged groups through financing assistance and proper guidance. It holds investment seminars and training sessions and offers a range of flexible loan options suited to different kinds of capital requirements.

(Ayala SR 2014)

### *BangKO*

BangKO, a creation by BPI and Globe Telecom, offers both wholesale and retail products specifically designed to reach persons living near the poverty line in city slums or hard-to-reach outer islands. Customers can make small deposits into their BangKO account or transfer money to pay bills or repay microloans, all using the SMS function on their mobile phones. The system offers a safe and reliable way to conduct financial transactions at a fraction of the cost of traditional banking methods. BangKO can also extend life insurance to any depositor or borrower, giving many poor customers for the first time a tool to insure risk and reduce vulnerability. (www.csr-asia.com 2010)

### *AutoloadMAX (AMAX)*

Globe Telecom's AMAX is an instrument to reach more prepaid customers while sharing economic benefits of its business with small retailers and new businessmen. It is an electronic reloading service that allows retailers nationwide to automatically reload prepaid credits to a Globe or Touch Mobile cellphone. At the end of 2014, there were 917.000 AMAX retailers who had steady income streams and could achieve profitable returns.

(Ayala SR 2014)

### *Bridging Public Service Gaps*

Besides Ayala Foundation, the other Ayala subsidiaries, too try to find ways to develop social programmes and to bridge public service gaps in education, employment and healthcare. AC Energy's GNPowder Mariveles had earmarked \$54.000 for various education and livelihood programmes. One of them is the company's Sea Patrol Programme which employs community fisherman to secure company assets and prevent illegal fishing. The programmes also grant

scholarships in entrepreneurship and technical skills, and over 100 persons from various spheres in the community benefitted.

Through AC Energy's North Luzon Renewable Energy Corp. various CSR initiatives were started to fill the gap in social services in the communities of Ilocos Norte. In 2014, the company spent \$160,000 for college scholarships, livelihood training, farming and medical assistance.

Manila Water, through its Kabuhayan para sa Barangay programme, provides financial assistance, micro-enterprise trainings and development seminars to financially challenged cooperatives in its service areas of Metro Manila, Laguna and Boracay.

Globe Telecom implements capacity building and financial assistance programmes to enable its community partners to find additional means of earning. With this help, various groups generated a combined additional income of \$150,000.

(Ayala SR 2014)

#### *Hybrid Social Solutions Inc. (HSSi)*

Jaime "Jim" Ayala, president and CEO of Ayala Land between 2004 and 2010, founded the Hybrid Network, a cluster of social businesses focused on working together to engage market and philanthropic forces in "hybrid value chains." One offspring is HSSi which is meant to provide Filipinos in need with high quality but affordable products, and training services necessary for development. HSSi distributes a large selection of durable solar-powered lights with cellphone charging facilities, in order to provide a source of light and communication to off-grid communities. It cooperates with socially-oriented organisations to distribute its products to rural communities, schools and health units throughout the country. It also provides finance for buyers by partnering with microfinance institutions and cooperatives. Kerosene consumption decreased by over 81 percent among HSSi users, resulting in savings of \$100 per customer per year. Additional working hours at night due to the solar light systems contributed an additional earnings of \$400 per year on average. Other benefits are increases in studying time, motivation, air quality, safety and time savings. ([www.en.wikipedia.org](http://www.en.wikipedia.org))

#### *Waste-picking Associations*

Scavengers see waste as an asset, and they can potentially derive more income from this asset if it is segregated. To fulfil this potential, however, distributive actions are required to secure access to waste for low-income groups. Ayala Foundation has, therefore, installed a solid waste management programme which works with waste-picker associations in collecting recyclable materials from the companies located in the financial district, and has hired a junk shop operator in Payatas to collect their 36 tons of waste per day. The junk shop actually quotes a lower price for garbage collection than the biggest solid waste management company in Metro Manila. In effect, the junk shop can earn service fees plus a return from recyclables whereas the big company can only charge service fees. The Ayala connection is needed by the junk shop operators and waste-pickers to know how to fill out pre-qualification forms, how to bid on contracts and generally how to build a business relationship. (Gonzales 2003, p19)

### *Water Provision*

Twenty years ago, a great part of Manila's 11 million residents could only wish for reliable, affordable water service. Nearly two out of every three gallons of water pumped through the dilapidated distribution system were lost or stolen. To remedy this situation, the government decided to privatise water distribution, and the concession to operate the water and sewer system in Metro Manila's east zone, home to more than 6 million people, was given to Ayala's Manila Water in 1997. Manila Water then invested over \$1 billion in laying more than 3,000 km of water lines and building 33 wastewater treatment plants, and emerged as a model for integrating financial success with social responsibility and environmental sustainability. "Unlike most companies which disregard lower-income groups because they seem to be an unattractive market, Manila Water took a particular interest in addressing their needs. We saw an opportunity to help uplift the quality of their lives, provide much-needed service and, at the same time, make reasonable returns on our investment," told Jaime Augusto Zobel de Ayala, chairman of Ayala Corp. and vice chairman of Manila Water, in an interview in 2011. (www.alumni.hbs.edu 2011)

However, there are different opinions about the 'good intentions' of Ayala Corp. A paper named "World Bank and ADB's Role in Privatizing Water in Asia" by P.R. Siregar tells another story. Manila Water won the eastern concession by promising a huge 74 percent cut in water rates. The concession was given for 25 years (later extended by another 10 years) against the pledge that no rate increases would be implemented during the first ten years of operation. Although some observers warned early of the entry of old oligarchs into vital public utilities, people welcomed the lowered rates and the prospects of reliable service. But within six years after Manila Water taking over, water fees increased at least five times without corresponding improvements in existing service or infrastructure. Water charges triples in 2001 and 2003, registering an increase of 81 percent in the eastern zone. (Siregar 2008)

## **SAMSUNG**

The employment of almost half a million people who again support millions of others is the best contribution by the Samsung conglomerate to stem poverty. But direct employment is then complemented by various activities and programmes to help both employees and the community.

On the employment side, Samsung Electronics (SE) has set up

### *Career Consulting Centre:*

Experts offer education programmes including financial planning and health management for employees nearing retirement. The centre also gives council as to establishing one's own business, planning career moves and investing. In 2013, approximately 500 persons found new jobs outside Samsung through these consultations.

### *Extending Retirement Age:*

In 2014, SE installed a wage peak system which makes it possible to extend the retirement of employees for up to five years. In agreement with the employee council, the company allows employees to accept a reduced salary after 56, giving them the chance to stay at SE for longer.

### *Female-Friendly:*

Of SE's 300.000 employees, female ones comprise 27 percent of the workforce in Korea, and 47 percent elsewhere. SE has programmes in place to balance work and family life, grant leave for fertility treatment, longer daycare centre hours, and extended parental leave period. For these efforts, SE was certified as a 'family-friendly company' in 2013.

### *Job Opportunities for People with Disabilities:*

SE has implemented a range of programmes to provide jobs for disabled workers and to help them to build a career. In 2010, it created "Stepping Stone", an internship programme for college students with disabilities, and in 2011 it introduced a special open recruitment programme for graduates with disabilities. It has employed managers with experience in integrating disabled workers, and is improving facilities to minimise inconveniences. Its internal facility certification programme, "Samsung Barrier Free", helps employees with disabilities to operate in an easier and more comfortable environment.

(Samsung SR 2014)

### *Special Social Contribution*

In 2013, SE employees received a special bonus of 100 percent of basic salary to commemorate the company's 20th anniversary - but they donated 10 percent of it for good causes. The Samsung Corporate Citizenship unit then sought ideas from employees, volunteer service centres, the employee council and the Community Chest of Korea. Approximately 100 ideas were classified into six projects:

- Support for programmes designed to help orphaned youngsters gain financial independence.
- Improve infant fertility rates in underdeveloped countries by the use of smartphones.
- Improve the life of children with disabilities by using IT devices.
- Construct public welfare facilities in local communities.
- Support solar-powered facilities at welfare facilities.
- Help alleviate medical expenses for children with terminal diseases.

Almost 24.000 employees voted for the projects, and their enthusiasm convinced the company to support all the six categories as well. The Corporate Citizenship unit will accompany the projects and keep employees informed on any progress, creating thereby a new culture of donation. (Samsung SR 2014)

### *CSR Investments*

In 2013, SE invested \$508 million in the following categories:

Partnership Fund	6
Social Causes	205
International Causes	108
Culture & Arts	42

Academic Exchanges	145
Sports	2
	-----
TOTAL	508

(Samsung SR 2014)

*Shared Growth between Primary and Secondary Partners*

Samsung C&T's Fashion Group encourages primary and secondary suppliers to create a culture of shared growth during transactions based on Fair Trade and Shared Growth Agreements. Primary partners are called upon to expand cash ratios in transactions with secondary partners, comply with payment dates, break down costs in the delivery of goods, disclose cost adjustments, and extend any of Samsung C&T programmes to secondary suppliers. Shared growth with secondary partners is a criteria for choosing primary ones. (Samsung C&T CSR 2016)

*Heartist House*

At Heartist House, located in Seoul's Samcheong-dong, Fashion Group tries to find ways other than donations and sponsorship to create social value. It was built on the five 'R' principles of Reducing, Reusing, Recycling, Refining and Recovering. Products on sale have special stories behind them, often coming from clearance stocks or being otherwise out of fashion. Many are redesigned or changed by artists. Profits from Heartist House are then used to fund a social contribution programme called 'Heart Campaign'. In 2015, 17 campaigns were conducted in collaboration with six social enterprises and four NGOs to support visually impaired children with scholarships and medical expenses; the 'Heart for ART' programme fostered children's creativity and self-esteem through fashion and art education; Hanbit School for the Blind taught students fashion and art and exhibited their works at Heartist House, giving them pride in their achievement. (Samsung C&T CSR 2016)

Also Samsung Heavy Industries (SHI) has various social contribution activities in place:

*After-school Classes for Rural Areas:*

Since 2006, SHI has in place after-school classes for rural areas with the intention to close the educational gap between urban and rural areas and to help students to reach their potential. SHI employees with master's or doctoral degrees teach English and math classes to more than 150 students on Geoje-do island for two hours, four times a week.

*Heemangnuri Project:*

was launched in 2010 to support profit-generating businesses for socially marginalised people. It facilitates 'rural area projects and experience village construction' and supports 'revitalisation of local welfare centres' with the aim to create networks among local residents and an environment where local communities can support themselves.

*Meal Support Project:*

Launched in 2005, the project delivers meal boxes twice a day to middle and high school students who cannot afford meals due to financial difficulties at home. In 2014, 634 students in 17 schools benefitted from the project.

#### *Support for Needy Local Families:*

The programme was started in 2014 to help low-income families. It helps to overcome some of their economic difficulties by offering financial help in medical bills, operation expenses and scholarships, and thus to give them a message of hope. In 2014, 37 families were supported with a total of \$95,000 for home improvement, scholarship and surgery expenses. (SHI SR 2014)

Korea's meteoric rise to prosperity in the past 50 years is often mentioned as an example of success in lifting the population of a whole country out of poverty. But despite vast improvements in living standards, poverty is still a reality for a considerable number of Koreans. According to OECD records, about 15 percent of Koreans earn less than half of the median wage after taxes and government transfers, and of the elderly, 45 percent fall below the poverty line, compared with an OECD average of around 13 percent. "As you see, our big companies like Samsung always make big profit but we can never observe a trickle-down effect at all. They get everything. In that kind of economic world, growth means nothing," remarked Kim Kyo-seong, professor at the School of Social Welfare at Chung-Ang University in 2012. He believes that economic growth is far less important in alleviating poverty than government programmes. In his opinion, it is time that Korea moves towards a high-tax, universal welfare model such as in Scandinavia. (www.koreaherald.com 2012)

#### **4.3.9. PUBLIC HEALTH**

Health is "a state of complete physical, mental and social wellbeing and not just the absence of disease or infirmity" according to the WHO.

Public health, or the health of community as a whole, can be supported by business in various ways. Companies can be directly involved by providing medical products and services, or by running hospitals and clinics. Indirectly they can have a positive influence by selling goods and services which prevent diseases, cure illnesses or promote a healthy lifestyle, or a negative one through products detrimental to health such as tobacco or alcohol. Besides providing healthy work conditions and medical assistance for its employees, a company may go further to assist also the local community. By building hospitals or paying for their upkeep, offering fast and easy access to medical care, or sponsoring sports and recreational facilities, it can contribute to better health overall.

#### **AYALA**

##### *Generika Drugstore*

Ayala Healthcare Holdings Inc. has embarked on an aggressive expansion programme for its drugstores seeking to extend affordable and accessible healthcare to various communities in the Philippines. Generika Drugstore, owned 50 percent each by Ayala Health and the Ferrer group, has built a chain of 614 stores nationwide by mid 2016, and looks to expand the Generika

network to 1,000 by 2020. 10 percent are to be owned by the company while the remaining 90 percent will be franchised. (www.philstar.com 2016) It has become the community's most affordable provider of safe generics, medications that are as effective as the branded originals but available at a fraction of their price. In case there are no clinics nearby, Generika provides free doctor's consultations, and it also offers blood sugar and other lab tests. Generika pharmacists give free patient counselling to help customers better understand the medicines they buy. (www.healthfrontiersandmore.com 2016)

### *FamilyDoc*

Family Doc is a one-stop medical clinic with pharmacy, diagnostics and outpatient services, as well as a convenience store, with the aim to provide accessible and high-quality primary care to middle-income earners. Based on research in middle-class communities in suburban areas, AC Health found that such areas still lacked convenient access to affordable clinics for basic consultation and primary healthcare. "What we did was we put FamilyDoc right in the middle of their community. Right outside of their villages, in community malls," said Paolo Borromeo, AC Health's CEO. Each branch is a "three-in-one" medical centre, offering the services of a clinic, diagnostic facility (with laboratory and imaging) and pharmacy. Basic consultation costs around \$7, and laboratory tests cost half of what is charged by private hospitals. (www.business.inquirer.net 2016). The company opened six clinics in 2016 and aims to have 100 in place by 2020. It also plans to franchise the FamilyDoc venture at a price of \$120,000 to \$180,000. (www.ibtimes.ph 2016)

### *QualiMed*

QualiMed is a network of healthcare facilities owned and operated jointly by Ayala Land and Mercado General Hospital, and it operates by using three formats: mall-based multi-specialty clinics, stand-alone ambulatory or day surgery centres, and full-service hospitals. QualiMeds vision is to build 10 clinics and 10 hospitals by 2020. (www.qualimed.com.ph 2014)

### *Pasig River Rehabilitation Project*

The 27 kilometre-long Pasig river stretches from Manila Bay in the west to Laguna de Bay in the east. Over time, the river has become polluted with domestic and industrial waste, exacerbated by regular flooding to inundate the makeshift shelters built along the river banks. In 2010, Habitat for Humanity (HFH) Philippines received a boost to its Pasig River Rehabilitation Project. The Ayala group pledged - to mark the company's 175th anniversary - to build 175 homes for informal settlers who live along the river, and to treat waste water. "We've committed \$650,000 as a group, and this is just the beginning of what I hope will be an ongoing process for that area," said Ayala Corp's president Fernando Zobel de Ayala. "We also hope to build a school, basketball court and some of the other amenities." (www.reliefweb.int 2010)

### *Health and Sanitation*

Manila Water business investments (\$92 million in 2014) are meant to provide dependable access to clean water in Manila's East Zone. Without it, many communities would be vulnerable

to waterborne diseases, especially among infants, leading to stunted growth and poor education performance. (Ayala SR 2014)

#### *Health Intervention via Mobile Technology*

By the end of 2014, there were almost 24,000 confirmed HIV cases in the Philippines, with more than a quarter among 15 to 24 years old people. To address the problem, Globe Telecom launched a campaign called TxtHIV in order to reach vulnerable groups who are reluctant to get tested for sexually transmitted diseases in public health facilities. By simply sending an SMS through any Globe phone, youths at risk or other vulnerable groups can get anonymous access to basic HIV/AIDS information and services. The programme offers callers to follow a simple self-assessment procedure and encourages them to voluntarily seek confidential HIV counselling and testing. (Ayala SR 2014)

#### *Safe Driving Promotion*

Throughout the year, Ayala group and its distribution partners promote road safety through awareness campaigns, various customer care programmes, and seminars on defensive driving, traffic rules and regulations, basic car care, troubleshooting and fuel efficiency. (Ayala SR 2014)

## **SAMSUNG**

One contribution to public health by Samsung is to take care of its employees and their families and keep them healthy, "whether physically, emotionally, financially or socially" as written in the relevant section of Samsung Electronics's brochure "About Us". The measures indicated, relating to health care, are

- Company paid extended health and dental coverage
  - Employee and dependent life insurance
  - Short and longterm disability
  - Accident death & dismemberment
  - Maternity and parental top up
  - Health & wellness programmes
  - Comprehensive employee family assistance programme
  - CAREpath (cancer assistance programme)
  - Free fitness centre
- (SE's "About Us" 2014)

Samsung Heavy Industries (SHI) operates a *Welfare Benefits System* for its employees, with emphasis on

- Offering optimal working environment
  - Supporting the stabilisation of livelihood
  - Providing spaces for sports and culture activities
  - Considering caring of children
- (SHI SR 2014)



With the goal to run the "healthiest shipyard in the world", SHI strives to promote healthy life not only for its employees but also for its business partners and the local community. It has installed a *Health Promotion System* which offers

- Medical support
- Professional staff
- In-house clinic
- Physiotherapy centre
- Health care centre

(SHI SR 2014)

When it comes to "healthy" products, or rather medical devices and implements, Samsung Electronics (SE) is in the forefront. Its line is

#### *Health & Medical Equipment*

SE's big push into the health care market started in 2010, when it acquired a controlling stake in ultrasound device maker Medison. It then bought health care equipment maker Nexus the following year, and medical imaging company NeuroLogica in the beginning of 2014. SE then launched GEO, its own line of medical imaging device. The range of large-scale imaging equipment now consists of

- Ultrasound
- Digital X-ray
- Portable CT
- IVD (in vitro diagnostics) solutions

By 2020, SE expects to generate \$10 billion in revenue from its medical devices which would represent 2.5 percent of its projected total annual revenue of \$400 billion. (www.fool.com 2014)

#### *S Health*

S Health is compatible with all Samsung devices where connected wearables will automatically synchronise data. It is an online platform offering a selection of features for planning, tracking and reviewing workouts. One has to put in gender, age, weight, height and exercise levels, and can then establish and control

- Training plans (giving an overview of the amount of workouts and their duration)
- Goals for basic workouts (where one can customise duration, burned calories and other targets)
- Sleep targets (review of sleep patterns, input of sleep hours and rate)
- Monitor food (input of food, and targets based on personal statistics and kind of exercise)
- Social goals (setting 'together' targets with friends, check their statuses and compete)

(www.wearable.com 2015)

#### *Samsung Care Drive*

Being aware of an ageing population who wants to "live longer and healthier" rather than simply "live longer", SE has developed Smart Healthcare System which is accessible anywhere at any time. It is a mobile medical centre equipped with user-friendly medical devices,

comprising an eye, blood, dental and ear clinic, with electricity generated by solar panels. It is operated by experienced medical staff who provides basic health check-up service. In 2013, eight Care drive programmes were on offer, to be expanded to 35 in 2014. (Samsung SR 2014)

#### *IoT Platform*

SE and Nestle's Institute of Health Science in Switzerland have formed a partnership to use IoT technologies and research to find new health insights. Samsung thinks that its ARTIK IoT platform, semiconductor experience and smart device solutions, if joined with Nestle's expertise in biomedical science, will revolutionise conventional healthcare. The research of both companies is meant to create a new digital platform for consumers, and first pilots are expected to run in 2017. ([www.internetofbusiness.com](http://www.internetofbusiness.com) 2016)

#### *Biotech*

Samsung has entered the biologics and biosimilars market through two joint ventures: *Samsung Biologics*, a joint venture with Quintiles Transnational, is currently a contract manufacturer of biologics for Roche, and *Samsung Bioepis*, a joint venture with Biogen Idec, develops biosimilars. Samsung has invested \$2 billion in the biotech industry, with specific focus on biosimilars, the generic version of biologics - drugs derived from living organisms. The global market for biosimilars is expected to grow from \$1,2 billion in 2013 to \$20 billion in 2019, and Samsung intends to be one of the big players. ([www.fool.com](http://www.fool.com) 2014)

#### *Samsung Medical Centre (SMC)*

Samsung Medical Centre, ISO 9002-2015 certified, was founded in 1994 in Ilwong-dong in the southern part of Seoul. Today it has over 1.900 patient beds spread across 40 medical departments and over 110 specialty clinics; the large and high-tech cancer centre alone has 655 beds. SMC is considered the top hospital in Korea, renowned for its facilities, dedication to advanced and efficient care, and its short waiting times. It has won several awards including the Minister of Health and Welfare Award 2015. ([www.medigo.com](http://www.medigo.com) 2016)

Equipped with advanced medical service infrastructure, order communication system (OCS), picture archiving communication system (PACS), clinical pathology automation system and logistics automation system, it is considered to be the best hospital in terms of hi-tech medical services. ([www.kmhglobal.com](http://www.kmhglobal.com))

#### Facts and Statistics (as of 2015)

- *Employees:* 1400 doctors, 2600 nurses, 1100 researchers, 2900 pharmacists and medical engineers
- *Treatments:* 2.027.211 outpatients, 76.496 emergency patients, 85.208 inpatients, 45.800 surgeries
- *Research:* 1135 publications in SMC SCI, 1305 planned research projects, 2457 ongoing research projects.

([www.health-tourism.com](http://www.health-tourism.com) 2016)

#### **4.3.10. SOCIAL STABILITY**

Social stability reflects the amount of peace, security, safety and trust within a society. Economic and social distortions can put in danger this equilibrium.

Business is able to reach a large number of people through its products and services, its investment choices and its ethical practices, and can exert influence in both positive and negative ways. Especially in countries with social divides, political instability and a history of crime and conflict, it can play a significant role in stabilising or aggravating the living conditions of whole communities.

#### **AYALA**

##### *Ayala Foundation*

Founded in 1960 as the Philippines' first corporate foundation, Ayala Foundation sees its role as an innovator in social action, providing real and sustainable solutions to socio-economic problems in communities, specifically in the areas of education, youth leadership, sustainable livelihood, and arts and culture. (Ayala SR 2013)

##### *Southville 7*

Southville 7 is a 107-hectare resettlement site for 4.500 families in Calauan, Laguna, under the auspices of Ayala Foundation. It includes a job fair, training in landscaping, and pilot mushroom and purple yam growing facilities to provide the residents with a sustainable source of income. (Ayala SR 2013)

##### *The Entire Nation (TEN) Moves!*

Ayala companies started a multi-stakeholder initiative to raise funds for the construction of 10.000 climate-resilient classrooms all over the Philippines. Since its launch in 2011, more than \$1 million were raised in cash and 1.277 classrooms built in typhoon-ravaged areas. In 2013, the project was handed over to the Philippine Business for Social Progress. (Ayala SR 2013)

##### *Changemaker*

Laguna Water, together with the British Council Philippines, IMI (Integrated Micro-Electronics), Ayala Foundation and Ayala Corp. initiated the "I am a Changemaker" programme in Laguna to help social enterprises increase their impact on community. The programme provides training and workshops on social entrepreneurship to 28 leaders and representatives of 14 community-based enterprises. Two participants from each group are given lessons on social issues, social enterprise models, business skills, innovation, management and marketing. More than just providing a source of income, the aim is to create a positive impact on their communities and to ensure a sustainable environment. E.g., the mushroom cultivation project of Binan increases self-value and gives hope to HIV patients, and the women of Majayjay try to help impoverished women in the community through their atsara business.

Other beneficiaries of these social enterprises are persons with disabilities, senior citizens, former overseas Filipino workers, and others. (www.lagunawater.com 2016)

#### *Financial Wellness for All Income Levels*

According to a survey in 2015, only 43 percent of adult Filipinos adequately safe which leaves more than half of the population in a state of financial vulnerability. Thinking that financial health is almost as important as physical health, and to promote financial wellness to a larger public, BPI has widened its offer of products and services. The bank's programmes on saving, investing, building healthy credit and protecting assets are all aimed at helping more Filipinos to obtain financial freedom and better future prospects. (Ayala SR 2014)

#### *Ayala Malls*

Founded in 1988 as a subsidiary of Ayala Land, by the end of 2015 Ayala Malls operated 45 shopping malls all over the country. But the malls are not merely places to shop and eat, they have become lifestyle and cultural centres, exhibiting the best in Filipino architecture, artistry and design. By using unique concepts they create vibrant community hubs, and they provide employment for 100.000 people. They are also designed to be tourist destinations, and "tourism is the fastest way to create many jobs which is ultimately good for the Philippines", according to Kevin Tan, head of Megaworld Lifestyle Malls. (www.business.inquirer.net 2016)

#### *Products and Services*

Which products and services business offers to community, and in which way, has a big influence on social stability. Ayala defines it as follows in its Sustainability Report:

"We take innovative approaches to increase customer value and enhance customer experience; empower more customers, including those with limited access to essential goods and services; and improve the quality of life of communities. We fully bear in mind environmental and social factors when developing our products and services, and design these in ways that lessen their environmental impact and increase our support for community developments". (Ayala SR 2014, p11)

## **SAMSUNG**

At the start of Samsung Electronics' Sustainability Report 2014, there is the habitual "CEO Message". In this, Mr.Kwon Oh-hyun, CEO of Samsung Electronics (SE) writes:

"First and foremost, we have focused our efforts on pursuing sustainable and positive growth. That is the path toward achieving our 'Vision 2020': We want to inspire the world with innovative technologies, products and designs - in order to enrich peoples' lives while contributing to a socially responsible future. We consider creativity to be the seed of innovation and as such invest in a wide range of initiatives and programmes that foster the creative spirit and autonomy of our employees across the company....Samsung has one top priority: To ensure the health and safety of our employees and the communities where we operate." (Samsung SR 2014)

This statement reads rather different from what Sharan Burrow, general secretary of ITUC (International Trade Union Confederation) wrote on the organisation's website two years later: "From denying justice to the families of former employees who died from cancer caused by unsafe workplaces to dodging tax and engaging in price-fixing cartels, one thing is constant: Samsung's corporate culture is ruthlessly geared towards maximising profit to the detriment of the everyday lives of its workers." (www.ituc-csi.org 2016)

Between the uplifting words by Mr. Kwon and the utter condemnation by ITUC, Mr. Kevin Slaten, Programme Coordinator at CLW (China Labour Watch) strikes - probably correctly - the middle when mailing following message to the newspaper The Nation, after illegal labour practices were revealed at Samsung's supplier Shinyang Electronics:

"If it has the will, Samsung, with its billions, has the resources to find this balance and positively affect the conditions of hundreds of thousands of workers. Samsung can control product quality and will invest the time and money to do so. They should apply the same principles to labour conditions." (www.thenation.com 2014)

Some programmes and efforts to foster social stability are in fact undertaken by Samsung:

#### *Social Contribution*

SE employees are encouraged to donate part of their salary each month to charitable community programmes. To match employee contributions and to increase the impact, SE has created a fund of \$9 million. (Samsung SR 2014)

#### *Samsung Culture Index (SCI)*

SE Research Institute conducts an annual survey among all employees in five categories: Work Smart, Think Hard, Build Trust, Leadership and Policy. The institute then compiles all survey results to create the Samsung Culture Index (SCI) which reflects work satisfaction, reliability and fatigue levels of employees. (Samsung SR 2014)

#### *Supporting Future Generations*

Samsung C&T built a C&T Academy for Juniors which provides children from grades four to six with a unique learning chance in construction. The courses cover basic teaching of engineering and construction via monitoring, field trips, and various hands-on activities such as designing dream houses and building model bridges. The objective is to help them understand the business of construction and stimulate their interests by offering vocational training experience. (Samsung C&T CSR 2016)

#### *Partnership Based on Mutual Respect*

In order to install a culture of fair trade with partners, Samsung C&T established a guideline for special contracts on unjust practices and posted it on partner's portals. The guideline includes specific cases and countermeasures relating to each article defined as unjust under Subcontracting Law, so partners can protect their rights even without legal knowledge and resources. (Samsung C&T CSR 2016)

### *Business Ethics*

Samsung Heavy Industries (SHI) aims to be the Global No. 1 company through fair and transparent corporate management. It has set a Code of Ethics which regulates

- Integrity management
- Respect for shareholders
- Customer satisfaction
- Coexistence with business partners
- Environment, health and safety
- Ethical standard for employees
- Commitment to employees
- Responsibility for nation and society
- Obligation for code of conduct

(SHI SR 2014)

### *Social Contribution Activities*

SHI engages on a regular basis with communities, employees and their families to conduct activities which can contribute to the growth and advancement of local communities, especially in areas not covered by public services. Social contribution activities in 2014 were divided into four categories:

- Differentiated social contribution activities
- Expansion of employees' participation
- Communication with local communities through sharing
- Enhancement of global social contribution activities

(SHI SR 2014)

### *Innovative Technology*

One of Samsung Electronics' way of shouldering social responsibility is the effort to improve quality of life and to create a healthy society by innovative technology:

- *Tomorrow Solution:*

This is a creative solution contest in which participants identify social issues in their communities, propose innovative ideas to address the problem and implement them.

- *The eyeCan Project:*

SE's Creative Development Institute invented an eye-controlled mouse called 'eyeCan'. The technology to allow physically disabled persons to use a computer through eye movement was already available but at the very high price of approximately \$9,000. SE's eyeCan, a product easily assembled by using a web camera and eyeglass frame, costs only \$45, a 99.5 percent saving.

- *Visual Perception Technology:*

For people with visual impairment, SE developed a function in the smartphone camera screen that detects up to 33 colours and five clothing patterns, and converts the information into sound.

(Samsung SR 2014)

### *Social Interaction*

The biggest social contribution may be the smartphone itself. These days there are hundreds of

thousands of mobile applications available for communication, recreation, planning and work. The popularity of mobile devices and their steadily increasing use for personal and professional purposes is a major social trend which reinforces the consumption of products offered by Samsung. ([www.research-methodology.net](http://www.research-methodology.net) 2015)

## 5. CONCLUSION

The Research Question of: "What impact does big business in Asia have on the economy and society of the country it operates in?" is examined by two examples, one in the Philippines, and one in Korea.

Both Ayala Corporation and the Samsung Group are giants in their countries and bound to have significant impacts on their markets and people. Although both are "Asian", there exist huge differences, first in the environment they operate in, but also in their outlook and business philosophy.

To begin with, a look at the markets, or countries: The Philippines is a sub-tropical country of more than 7.000 islands and a population of 101 million, dispersed over 3.000 square kilometres. Although English is widely spoken, about 80 local languages and dialects exist. The country was a Spanish colony for over 300 years, with the result that Catholicism became the dominant religion. It is blessed with abundant natural resources but also prone to earthquakes and typhoons.

On the other hand, South Korea could not be more different. Its 50 million people live on 99.000 square kilometres of which two thirds are forests or mountains, and therefore it is one of the most densely populated countries in the world. It has a continental climate with four distinct seasons, including a cold and dry winter. Natural resources are scarce, and just a few generations ago hunger was a constant threat. Koreans are one ethnicity, speaking one language, and Confucianism is both the main religion, as well as a way of living.

It is, therefore, obvious that these diverse geographical, historical and cultural conditions had strong influence on the development of large enterprise in the two countries.

The Ayalas came to the Philippines from Spain in the 1830s, at the height of Spanish colonialism. They had a head-start over the indigenous population by being part of the colonial masters, and they soon started to make use of a resource available in abundance: land. Ayala Land is still the most valuable company in the conglomerate, and the one with which the Ayala name is most closely associated. With prime estate in Makati, numerous resorts, malls and developments all over the country, it follows what was started 150 years ago and continues to be the cornerstone of its wealth, the exploration of land. In line with the characteristics the country offers - and the resulting necessities - the Ayalas diversified into transport by building a dealership network for Japanese automobiles. They set up, with partners, Globe Telecom, to provide telecommunication and broadband connection over the vast archipelago. BPI (Bank of the Philippine Islands) followed a similar rationale, i.e. to bring banking services to remote areas and individuals. With Manila Water they exploited the need of millions for reliable water infrastructure. The recent forays into PPP (public-private partnership) projects such as toll road and railway construction is again a shrewd way to satisfy the demand of the market, same as building a portfolio of conventional and renewable power generation.



It can, therefore, be seen that the Ayalas' strategy, from the beginning, was to follow the demand and conditions of the vast country and its huge, but poor, population. They sought opportunities early on, took calculated risks, provided good services and gained competitive advantage. It is also notable that this was achieved over a very long period of time, and that product manufacture was and still is no significant part of the overall operation. It is above all "services" which the conglomerate offers. There are definitely oligopolistic features detectable such as in telecommunication, water provision, banking, property development and others, but market dominance was mostly achieved by benign means and constant efforts to be more efficient, enhancing thereby economic welfare.

The family, now in its sixth generation, maintains a firm grip on management and ownership, through its Mermac Inc., which holds a controlling stake of 49 percent in Ayala Corporation, the holding company of the group. But the structure is rather straight forward, with shareholdings of Ayala Corp. of 30 to 50 percent in the publicly listed companies, and 100 percent ownership of the subsidiaries.

Two peculiarities are still worth mentioning about the Ayalas: First, they preserve their Spanish decent and are still not fully perceived as Filipinos. They have a reputation of being conservative, almost European, and to cater mainly to the upper class. Although they are trying hard, they "have a long way to go to reach the bottom of the pyramid" in the words of Juan Carlos Borromeo, Vice Consul at the Philippine embassy in Vienna, in an interview in January 2017. Second, and unlike many of their peers in Asia, the Ayalas never aspired to a role in politics nor were they political rent seekers. They were, of course, closer to the Aquino administrations (part of the group of rich families in the country) than to the present Duterte presidency, but always at arm's length.

The development of Samsung took a different course. The company started, still during the Japanese occupation of Korea, as a small trading house but grew quite quickly after the Korean war under the leadership of its patriarchal founder Lee Byung-chull. Lee sought to establish Samsung as leader in a wide range of industries (sugar, textiles, tyres, insurance, securities), and the company was already a sizeable conglomerate when the Korean "economic miracle" began under the presidency of general Park Chung-hee (1961-1979). An export-oriented industrialisation policy was initiated, with the visible hand of government allocating capital and import licenses to a selected group of companies active in key industries and targeted development sectors. Samsung was among them, benefitting also from the "big push" in the 1970s to promote heavy and chemical industries. Samsung Electronics was founded in the late 1960s, the Suwon facility was built and the first black-and-white TV sets manufactured. The original Samsung Trading Corp. grew to become eventually Samsung C&T Corporation.

Besides the undoubtable business acumen of Lee Byung-chull there was also massive state support in Samsung's critical phase of rapid expansion, and a close connection to government and political power. All the advantages offered were grasped such as the allocation of scarce resources (capital, licenses, tax relief etc.), erection of entry barriers against other mostly smaller competitors with less access to capital, competitive advantage gained by lower

production cost and brand building, political influence, and vertical and horizontal integration. A fearsome conglomerate was built, under the control of a family. Confucian relationships like ruler and subject (benevolent/loyal) but also father and son (loving/reverential) or elder brother and younger brother (gentle/respectful) played a role in the operation of the group, if not manifest then at least in the background. Lee Byung-chull's management style was already "values-driven", and Lee Kun-hee continued and perfected it.

In the two decades after the Korean war the local market was still weak and consumption limited, so from early on the focus had to be on exports. And it was not "services" which could be exported but manufactured products. Samsung exploited the market conditions on hand, in the form of generous state support and a pool of cheap but hard-working labour used to suffering and deprivation. The latter was, after all, the richest resource the country had to offer.

The third son Lee Kun-hee was - against Confucian tradition - chosen to continue as head of the group. He soon adopted his own "New Management" system with the aim to create leading companies in all the sectors chosen. Through rigorous training programmes and a highly selective employment aptitude test he built a cadre of outstanding and disciplined managers. Samsung Electronics became the crown jewel in the group, but also in construction, shipbuilding and pharmaceuticals global champions were created.

The grip of the Lee family on the group is secured by complex circular shareholdings where firm control is exercised with the possession of just a few percent of shares. "Transparent governance" it is not, nor was the hand-over of leadership by Lee Kun-hee to his son Lee Jae-young a strictly legal affair.

As the market in the Philippines and in South Korea is quite distinct, with Korea creating a GDP (in 2015) almost five times higher than the one in the Philippines, and GDP/head even ten times higher (although, if based on purchase power parity, the figures are 2.5 and 5 times), development of large enterprise in the two countries is different, and so are the subsequent socio-economic impacts:

**Capacity Building** by Ayala Corporation and its affiliated companies is geared to countryside development, resilience building measures in regions threatened by natural disasters and climate change, and helping local communities through education and self-improvement projects. Samsung's efforts are rather in the field of volunteering and monitoring, both by employee and company participation. Already in this first case the difference between the two company contributions becomes visible, one operates in a wider geographical and environmental context (Philippines) whereas the other concentrates on stimulation of people in surrounding communities (Korea).

In terms of **Economic Growth**, Ayala's turnover (\$7.4 billion) is dwarfed by Samsung's one (\$305 billion) but with a contribution of 2.6 percent to the Philippine GDP in 2014 it is

definitely an important player. On the other hand, Samsung's contribution to Korean GDP was 23 percent but this is outstanding anywhere in the world.

Ayala's plans for future growth are again in line with market conditions and expectations, namely in renewable power generation in remote areas, transport infrastructure, land development also for middle and low income segments in different parts of the country, and extension of mobile telecommunication and broadband connection.

Samsung group's emphasis lies on investment in future technologies. This is valid for Samsung Electronics which, in its "Vision 2020", strives to reach a turnover of \$400 billion and become one of the world's top five brands; but also for Samsung Heavy Industries with advanced ship and offshore platform building combined with digital technology; Samsung C&T with large infrastructure projects and nuclear power plant construction; and Samsung Biologics and Bioepis who plan to be among the global top ten bio-pharmaceutical companies in 2020.

**Education** is considered to be one of the most powerful tools to reduce poverty and inequality, and to be the basis for sustained economic growth.

The Ayala companies take two approaches: First, they assist on the elementary and high school level, with the aim to give underprivileged and hard to reach youth a chance for education. They partner with UK's Pearson to set up private secular high schools and their curriculum, and they use the Globe Telecom network to bring mobile teaching methods to remote classrooms. The second emphasis is, through leadership courses such as LEAP and LeadCom as well as investment in universities, to build a pool of well educated people from which future leaders for their own businesses can be found.

Samsung, too contributes to basic education for underprivileged children through its "Mentoring Scholarship Programme". As to other education investments, priority is given to technology. "Samsung Smart School" stresses teaching and classroom management by interactive software, "Samsung SDS Multi-Campus" is the largest IT-education institute in the country, "Junior Software Academy" trains middle and high school students in software and coding, and "Sungkyunkwan University" is a first-class medical school. Apart from these, there is GSP (Samsung Global Scholarship Programme), SE's training programme for high-quality managers and "future global leaders".

So both groups play a valuable role in education, partly out of a sense of civil responsibility, but also to generate human resources from which to recruit their own future management.

**Enterprise Development**, i.e. assistance to small and medium enterprises who act as suppliers to big companies, is both an expression of corporate social responsibility, as well as an undertaking in the latter's own interest.

In the Philippines, MSMEs (micro, small and medium enterprises) constitute more than 90 percent of all business establishments and account for 70 percent of total employment. It is, therefore, imperative for the oldest conglomerate in the country to assist and foster their well-being and help to secure their future. Ayala does this again in ways it is familiar with, such as a 'Microfinance Bank' set up by BPI and Globe Telecom, the 'ABAC Sustainable Development' which helps MSMEs outside the central area by transport links and installation of telecom technology, the 'KPSB' programme run by Manila Water which enlists qualified cooperatives in the supply chain, and various engagement activities with suppliers to provide technology briefings, management seminars, sustainability and safety forums as well as business partner loans and awards. But it also has a 'Supply Chain Management' and 'Vendor's Code of Ethics' in place where suppliers are screened as to their safety and environmental policies, legal compliance and stringent quality standards. Negative performance is reproved, and repeatedly unreliable suppliers are filtered out.

As a big part of the Samsung group consists of highly specialised industries (electronics, shipbuilding, power plant and infrastructure construction, pharmaceuticals) the relationship with its suppliers has developed into a sophisticated and versatile form of cooperation. Samsung Electronics has announced a detailed 'Seven Mutual Growth Implementation Plan', followed by the 'Mutual Growth Ecosystem Programme'. It has set up a well-endowed 'Mutual Growth Fund' for primary and secondary suppliers, established its 'Mutual Growth Academy' with several education and training centres, and founded 'Smart Factories' where SMEs can learn from Samsung's technological experience and manufacturing know-how. Under the slogan of "Shared Growth", Samsung group started to allow SMEs the use of its patents at a low price, organises job fairs to facilitate recruitment of skilled manpower by its subcontractors, and provides several communication channels where partners can voice suggestions, complaints and questions. But Samsung also requires its partners to comply with standards, summarised in its 'Supplier Code of Conduct'. It also arranged for a 'Supplier Self-Assessment' system followed up by audits, and the implementation of effective CSR management.

The approach by both Ayala and Samsung to enterprise development is, therefore, two-pronged: On one hand they go to considerable length in helping SMEs and suppliers with management training, transfer of skills and technology, and financial assistance. But on the other hand they demand strict adherence to standards and codes of conduct, and are quite willing to penalise violations.

When it comes to *Environmental Sustainability*, the Ayala group tackles the issue in two ways: One is to actively improve conditions, especially by Ayala Land which takes care to explore land responsibly, to conserve biodiversity and to plant native trees. On the coast, wildlife and marine protection systems are installed. Globe Telecom and Manila Water also take part in reforestation programmes, assist environment protection agencies and secure primary water sources. BPI (Bank of the Philippine Islands) finances sustainable energy projects, especially renewable energy generation.

The other way is to avoid waste generation. Globe Telecom collects and recycles old mobile phones and electronic gadgets, Ayala Land reuses construction materials such as steel and cement, IMI (Integrated Micro Electronics) reduces the use of hazardous substances and has a strict policy as to conflict minerals, and Manila Water has installed an elaborate water resources management which includes ground water protection, wastewater recycling, energy efficiency and monitoring of supply, leakage and pilferage.

"Green" and "Eco" are catchwords also embraced by Samsung. They are a chance to generate additional business, and the Samsung group has earmarked more than \$20 billion to invest in healthcare and green energy.

But apart from eyeing new business opportunities, the group is making considerable and sophisticated efforts to reduce its own ecological 'footprint'. Samsung Electronics has developed its 'SMART Green Management Strategy' and implemented an 'Eco-Design' and 'Eco-Product Rating' process whereby a product's environmental impact is assessed already at the planning and design stage. It has installed the '3R Water Management' (Reduce - Reuse - Recycle), its 'Waste Management' which achieved a waste recycling rate of 92 percent by the end of 2013, and an 'Air Pollutants Management' which constantly reduces the discharge of pollutants despite an increase in production volumes. Samsung Heavy Industries strives to make its docks the "world's cleanest shipyard" by applying its HI-GEMS system, an integrated greenhouse gas emission and energy management system.

Both Ayala and Samsung are acutely aware of the necessity to preserve the ecosystem by saving energy, recycling and reusing waste and water, reducing air pollution and making increased use of renewables. They do this for solid business reasons but also out of corporate social responsibility and the urge to maintain an environment worth living in.

**Governance** is the framework of rules and practices by which companies are directed and controlled. In the case of Ayala, this is done in accordance with GRI G4, the reporting guidelines issued by the Global Sustainability Standards Board. The Board of Directors is the company's highest body of governance, defining Ayala's vision and key policies as well as mechanisms to monitor, evaluate and improve management performance. It is assisted by board committees which control and report on the following governance regulations:

- Training of Directors
- Code of Ethical Behaviour
- Risk Management
- Sustainability in Governance
- Stakeholder Engagement

At Samsung, it is also the Board of Directors which sets the basic guidelines for the operation of the company and execution of business (also in line with GRI G4), and determines the ethical standards to ensure transparent and responsible management across all operations. It also refers certain matters to committees, i.e. the execution and management, audit, independent

director recommendation, internal party transaction, compensation and CSR committees. There is also a special communication department in charge of dialogue with specific stakeholder groups such as shareholders/investors, suppliers, customers, employees, local communities, government, NGOs and the media.

The two groups have, therefore, all the customary governance provisions in place and make considerable efforts to comply, both in terms of money and manpower. However, perceptions by outsiders differ.

Whereas Ayala is also publicly seen to uphold and heed good governance and stakeholder's rights, within its own companies, and within the community at large, Samsung's reputation is stained by several scandals: accusations of bribery and price fixing, the conviction of chairman Lee Kun-hee for breach of trust and tax evasion, the murky merger of Cheil Industries and Samsung C&T, and so on. It may not be quite fair, as since its beginnings Samsung has made honest attempts to be a 'good corporate citizen', but nevertheless the name has suffered.

The protection of *Human Rights* is in principle the task of government but business can play an important role by setting examples and fighting discrimination by race, gender, disability, age and religion in its own ranks.

Ayala Corporation has stipulated a respective Code of Conduct and hiring policy. Special emphasis is laid on gender equality, almost 60 percent of its employees are female and 18 out of a total of 37 senior officers are women. Given the vast and often destitute population in the Philippines, the company also makes pronounced efforts to train and recruit people from low-income and underprivileged groups through programmes such as Training-for-Work scholarships by IMI, Careers for Street Youth by Ayala Foundation and Reaching Out to Indigenous Communities, also by Ayala Foundation. Ayala's top management is well aware that a large percentage of society falls into a disadvantaged class, that this makes it hard to find skilled workers, creates a limited market, and leads to increased criminality and internal migration, and it calls upon the business community to contribute more to social development.

Samsung, too has a strict Code of Conduct which guarantees the rights of all workers and prohibits discrimination on gender, education, race and age. It contains clear regulations as to protection of minor workers, working hours, voluntary work, wages and benefits, humanitarian treatment, exposure to health risks and others. But Samsung, as it happens so often, invites controversy. It has problems with its 'no union' policy, child labour at its Chinese suppliers, wage discrimination against female employees, and hazardous working conditions at Samsung Electronics which allegedly caused the death of more than 70 workers. The strictest codes and rules are, therefore, of little avail if not properly applied in practice.

Poverty is not just lack of income but also a lack of social and economic rights such as the right to health, housing, food, safe water and education. Business can contribute to **Poverty Alleviation** mainly by providing direct and indirect employment but also by other forms of assistance to improve standards of living in its society.

The employment of more than 40.000 at Ayala and more than 400.000 at Samsung is surely the biggest contribution to lifting a large number of people out of poverty. But both conglomerates provide also other services:

Ayala's BPI offers special banking services for low-income earners with very little strings attached; Globe Telecom has installed an electronic reloading service for small retailers via mobile phone; AC Energy finances various education and livelihood programmes, and provides farming and medical assistance; Manila Water gives financial help, micro-enterprise training and development seminars in its service areas; Ayala Foundation has established a cooperation between waste-pickers and recyclers in Metro Manila; and Manila Water has invested over \$1 billion in water lines and wastewater treatment plants to secure safe and regular water supply to millions.

Samsung Electronics' (SE's) expenditure in CSR programmes in 2014 (partnership fund, social causes, culture & art, academic exchanges, sports) amounted to more than \$500 million. But apart from substantial financial assistance the group has set up other support programmes: Special social contribution by SE's employees in the form of 10 percent of the bonus received on the occasion of the company's 20th anniversary; shared growth agreements with primary and secondary suppliers; after-school classes in rural areas; support for needy local families; and various projects to support school meals, socially marginalised people, village construction and revitalisation, and art and culture education.

Above examples show that, besides providing massive employment, both business groups spend considerable amounts of money and time to alleviate poverty and improve living standards.

Contribution by business to **Public Health** can come in different ways. The basic one, practiced in exemplary form by both Ayala and Samsung, is healthcare for their employees, including in-house clinics, professional staff, health and wellness programmes, family care and recreational facilities. These are also often accessible to business partners and the local community.

Another form of contribution is a profit-oriented healthcare provision for the public. Ayala does this through its nationwide Generika Drugstores, FamilyDoc clinics in middle-class communities, and QualiMed full-scale hospitals. Samsung's project Care Drive consists of mobile medical centres, equipped with user-friendly medical devices, operated by experienced staff and accessible anywhere in the country for basic health check-ups. And there is the huge and renowned Samsung Medical Centre in Seoul, with 1.900 patient beds, 40 medical departments, 1.400 doctors and 2.600 nurses.

Health and sanitation services are another way aiding the public. Ayala Corp. has started the Pasig River Rehabilitation Project to build homes for informal settlers and to treat waste water along the 27 km long central river, Manila Water invests to bring access to clean water in eastern Manila, Globe Telecom set up a help-service by SMS for HIV-infected people, and Ayala Automotive conducts regular road safety campaigns. Samsung is investing - together with Nestle of Switzerland - in an IoT platform meant to create digital healthcare for consumers.

And when it comes to manufacture of health-improving products, Samsung leads the way, both in equipment (ultrasound, digital X-ray, portable CT, IVD solutions) and in pharmaceuticals (biologics and biosimilar generics).

The amount of peace, security and trust within a society is reflected by its ***Social Stability***. Especially in countries with social divides, political instability and a history of conflict, business can have a positive influence by its ethical conduct, its responsible offer of products and services, and its engagement with society.

Ayala's contribution to social stability comes mainly through Ayala Foundation which strives to provide solutions to socio-economic problems, especially with regards to education, youth leadership and sustainable livelihood. Examples are Southville 7 (a settlement for 4.500 families in Caluan), the building of climate-resistant classrooms in typhoon-prone areas, self-help projects in impoverished communities, and improving financial health through specific banking services geared to the poor. In general, Ayala's stated aim is to provide products and services designed in such a way as to lesson environmental impact, and to increase support for community development.

Also Samsung has initiated several programmes to foster social stability: the Samsung Culture Index which reflects work satisfaction and reliability of employees; Partnership Based on Mutual Respect in order to promote a culture of fair trade with partners; Social Contribution Activities to enable growth and advancement of local communities, especially those not covered by public services; and Innovative Technology to improve quality of life and provide solutions to social issues. But last not least, it may be Samsung's smart phone which contributes most to social balance, by giving people the means for communication, planning, work and leisure.

According to the conditions existing, the resources available, and the historical and cultural background, two developing countries experienced, over time, the rise of two different large companies. Their impacts on economy and society are considerable, and were explained at great length in this paper. One can now ask: Who should be interested in the impact of big business in two Asian countries, thousands of miles away?

The answer is that large enterprise has always played a crucial role in the dynamic growth of a country. It is a purveyor of technological and managerial know-how to the economy, and a



creator of wealth by employing a huge number of people. So its impacts have considerable consequences which can be both benign and detrimental. Analysing and evaluating them gives guidance as to which ones should be emulated and which ones be avoided. And as large enterprise springs up constantly in different countries, a review of its impacts will help to form economic policy towards dominant firms.

"Big" is not necessarily "bad", and profit has to be generated in order to make growth, innovation and distribution of wealth possible. But to make modern big business truly sustainable, it is imperative not to lose sight of the 'Triple Bottom Line' of financial, social and environmental demands.

## **LIST OF ABBREVIATIONS**

AR (Annual Report)  
BOD (Board of Directors)  
BOK (Bank of Korea)  
BPO (Business-process outsourcing)  
CEO (Chief Executive Officer)  
COO (Chief Operating Officer)  
CSR (Corporate Social Responsibility)  
CT (Computerized tomography)  
FDI (Foreign direct investment)  
GDP (Gross Domestic Product)  
GNS (Gross National Savings)  
GWh (Gigawatt hours)  
IVT (In vitro diagnostics)  
IMI (Integrated Microelectronics Inc.)  
IoT (Internet of Things)  
KRW (Korean won)  
LED (Light emitting diode)  
MSME (Micro, small and medium enterprise)  
MW (Megawatt)  
NCR (National capital region)  
NGO (Non-governmental organisation)  
PHP (Philippine peso)  
PPP (Public-private partnership)  
PPP (Purchasing power parity)  
SE (Samsung Electronics)  
SHI (Samsung Heavy Industries)  
SME (Small and medium enterprise)  
SR (Sustainability Report)  
TBL (Triple Bottom Line)  
USD (US Dollar)  
WHO (World Health Organisation)  
WBCSD (World Business Council for Sustainable Development)

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## ABSTRACT

Der Titel "Big Business in Asia and its Impact on Economy and Society: The Cases of Ayala and Samsung" enthält im Prinzip schon die Forschungsfrage, nämlich welchen Einfluss und Wirkung haben große Unternehmen auf die Wirtschaft und Gesellschaft des Landes, in dem sie agieren. An den Beispielen der Firmen Ayala Corporation in den Philippinen und Samsung Group in Südkorea werden diese Einflüsse dann konkret beschrieben und analysiert.

Zuerst ist es notwendig zu erklären, was "big business" oder große Unternehmen wirklich ausmacht. Im theoretischen Teil der Arbeit werden daher bestimmte Kriterien für die Beurteilung des Marktes festgelegt, die Firma definiert und die Voraussetzungen für Dominanz und Einfluss von großen Unternehmen aufgelistet. Da diese in Asien oft Mischkonzerne und auch Familienfirmen sind, werden deren Besonderheiten ebenfalls beschrieben. Nachdem nun deutlich ist, was "big business" bedeutet, sind die Gebiete festzulegen, wo der Einfluss oder die Wirkung großer Unternehmen spürbar werden. WBCSD, der "World Business Council for Sustainable Development" oder "Weltwirtschaftsrat für Nachhaltige Entwicklung", eine Versammlung von über 200 internationalen Firmen aus diversen Geschäftsgebieten und über 30 Ländern, hat einen Rahmen erarbeitet (2008: "Measuring Impact: Framework Methodology"), der die zehn wichtigsten Wirkungsbereiche definiert:

1. Leistungsbildung (capacity building)
2. Wirtschaftswachstum (economic growth)
3. Erziehung (education)
4. Unternehmensentwicklung (enterprise development)
5. Umweltschutz (environmental sustainability)
6. Unternehmenskontrolle (governance)
7. Menschenrechte (human rights)
8. Armutsreduktion (poverty alleviation)
9. Gesundheit (public health)
10. Soziales Gleichgewicht (social stability)

Der empirische Teil beschreibt dann zuerst den Markt in den Philippinen und in Südkorea sowie die beiden Großunternehmen, Mischkonzerne und Familienfirmen Ayala und Samsung. In der Folge werden detailliert die Wirkungen aufgeführt, die diese Unternehmen in den von WBCSD bestimmten zehn Bereichen zur Folge haben.

Durch die genaue Analyse dieser zwei Beispiele soll letztendlich bewiesen werden, dass große Unternehmen einen entscheidenden Einfluss auf Wirtschaft und Gesellschaft haben können, sowohl positiv wie negativ. Und da große, dominante Unternehmen laufend und in verschiedenen Ländern und Märkten entstehen, kann diese Analyse helfen, eine entsprechende Wirtschaftspolitik gegenüber solchen Unternehmen zu formulieren. Das Ziel ist, dass "big business" die Bedeutung des Gleichgewichts von finanziellem, sozialen und ökologischen Nutzen erkennt, die sogenannte "Triple Bottom Line", u.zw. sowohl aus Gründen des Eigennutzes als auch gesellschaftlicher Verantwortung.

