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Business Ethics:
Only half of 30 largest Korean firms
have ethics codes

Integrity Pacts

Transparency International Korea carried out a survey on "Actual Condition of Businesses with a Code of Ethics" on July-August 2001. One of the major findings is that only about half of the 30 largest firms in South Korea have codes of ethics for their employees.

Actual Condition of Businesses with a Code of Ethics

	2000	2001
Samsung Electronics	○	○
Hyundai Construction	○	○
LG Electronics	○	○
SK	○	○
Hyundai Motor Co.	newly registered	○
Hanjin	X	○
POSCO	newly registered	○
Lotte Trading	X	○
Kumho Tires	X	
Hanhwa	X	○
Doosan	X	x
Ssangyong Cement	X	X
Hyundai Oilbank	○	X
Hansol Paper	X	○
Dongbu Insurance	X	X

	2000	2001
Daelim Cooperation	○	○
Dongyang Major Corp.	X	X
Hyosung	X	X
Cheil Jedang	X	X
Kolon	○	○
Dongkuk Steel	X	X
Hyundai Development	X	X
Hanaro Telecom	newly registered	no answer
Shinsegae	○	○
Yongpung	X	X
Hyundai Department Store	newly registered	○
DC Chemical	newly registered	X
Daewoo Electronics	X	X
Taekwang Industrial Co.	newly registered	no answer
Gohap	X	X
Total	8	14

But seven of the 14 firms either have an inadequate set of ethical principles or are reluctant to share them with the public.

Last year, however, only eight of the 30 firms had adopted codes of ethics, it said.

As for those companies providing education on codes of ethics to fight corruption, the report found that Korean Air topped the list by running eight classes a year, followed by Kolon with three

The top five also include Lotte Trading and Hanwha, which organized two classes a year, and LG Electronics, which organized one.

Present state of the Education on Ethics Codes

Frequency(a year)	Company
0	Hundai Construction
Only for the new employees	Daelim Corporation
1	Samsung Electronics, LG Electronics, Hyundai Motor, Lotte Trading, Hansol Paper, Shinsegae
2	POSCO, Hanhwa
8	Hanjin(Korean Air)
on occasion	SK, Hanhwa, Hyundai Department Store

The report also found that only seven firms, among which is Hyundai Motor Company, make a pledge to follow their codes of ethics.

"The business environment in Korea needs a lot of improvement," Sung said. "In developed countries like the United States, 90 percent of businesses have implemented codes of ethics; in Japan it's 80 percent." ■

Corruption/Anti-Corruption News in Korea (November)

Best 3 Anti-corruption News were:

1) FKI (Federation of Korean Industries) to set up ethics committee

On September 14th, the FKI held a foundation meeting for the Chief Business Ethics Officer Council (CBEOC), which is composed of the chief business ethics officers (CBEO) of large enterprises. The meeting was attended by 31 CBEOs including FKI chairman Kim Kak-Choong and Shin Hyun-Hwak, chairman of the Committee on Corporate Ethics. The FKI is going to establish a "Business Ethics Support Center" in order to help domestic companies put business ethics into practice through the expansion of ethics management and program development and education

2) The PPS(Public Procurement Service) will apply stricter rules to private contracts

3) On the occasion of Hangawi (Korean thanksgiving day), large companies will strengthen self-inspection

Worst 3 Corruption News were:

1) 'G&G Yong Ho Lee Gate'

The Supreme Public Prosecutor's Office said it started summoning prosecutors who were in charge of the investigation in May last year of Lee Yong-ho, head of G&G, a corporate restructuring firm. Lee, 43, was arrested May 9 last year on charges of embezzlement and stock price manipulation, but prosecutors released him the next day, citing insufficient evidence.

Early this month, the Central Investigation Department of the Supreme Public Prosecutor's Office arrested Lee on similar charges of embezzlement and stock price manipulation. He is now in custody awaiting trial.

2) Suspicion of a member of national assembly Joo, Jinwoo from Grand National Party putting pressure on a bid contract for his own favor

3) Doubt about the way of accumulation of wealth of former minister of MOCT(Ministry of Constrution & Transportation) Jong Nam Ahn. ■

Impressum

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Case of Business Ethics Codes in Korea: Shinsegae

◆ Company Name: Shinsegae

◆ Status of company

Classification	Contents	Remark
Business Content	7 department stores 36 discount stores	As of Sept. 2001
Sales Revenue in 2000	US \$ 2,693 million	
Gross Income in 2000	US \$ 76 million	
Number of Employees	Approximately 8,000	

◆ Back-ground of Anti-Corruption Activity

At the end of 1997, the nation suffered a financial crisis and the company, many difficulties. The company knew that the corresponding action of other companies (business disposition, restructuring effort including the reduction of employees and officers) would not solve the fundamental problems.

In the search for a resolution that will overcome any difficult situation in the future, the company turned to ethical management. The implementation of ethical standard for all management activities includes the eradication of corruption.

◆ Content of Anti-Corrupt Activity

(1) Establishment of Corporate Philosophy Based on Corporate Ethics

In 1999, a new management philosophy was established based on corporate ethics on corporate management.

Management Philosophy

In line with corporate ethics,
Shinsegae's goal is to undertake it's social responsibilities,

Share accomplishments and value created from its business operations
With customers, employees, associates and shareholders,

And finally, to emerge as one of the top-ranking retailers in the world.

(2) Enactment of Ethics Code

In order to practice ethical management including anti-corruption activities, the ethics code is enacted for all officers and employees of the company to observe (1999).

[Main Content of Shinsegae Ethics Code]

- Obligation to customers
- Compliance with laws and regulations and respect for market order in free competition
- Cooperation with the company and co-existence and co-prosperity

- Fundamental ethics for officers and employees
- Responsibility of the company to officers and employees
- Obligation to the nation and the community

(3) Operation of Exclusive Department for Anti-Corrupt Activities

The Corporate Ethics Practice Office is the sole and exclusive department supervising the practice of ethical management including anti-corrupt activities. (1999)

(4) Home page for Ethical Management

Provides information on the ethical management of Shinsegae and its anti-corrupt activities within the company. (April 2000)

The home page has become a useful measure of receiving and reporting the company's anti-corrupt actions of officers and employees.

(5) Anti-Corrupt Activity with Affiliate Companies

(5) - ① The company exercises anonymous inquiries in all cooperative companies twice a year. The questionnaire includes corruption, uncomfortable transaction, payment proceeding matters and others. This questionnaire survey is actively used in the anti-corrupt activities.

[Content of Questionnaire relating to Anti-Corruption]

◆ The upright Level of Officers and Employees (bribery, demand for entertainment)

Question 9) How much are you satisfied with the upright level of our officers and employees toward our cooperative companies based on each categories below?

	<u>Very Unsatisfactory</u>		<u>Normal</u>		<u>Very Satisfactory</u>		
1. Of buyer		1 2	3 4		5 6 7		
2. Of floor manager	1	2 3 4	5 6	7			
3. Of the person in charge of inspection		1 2 3	4 5	6 7			

Question 10) Considering the 3 elements in comprehensive terms, are you satisfied with the level of professionalism of Shinsegae Department Store officers and employees?

1 2 3 4 5 6 7

Question 11) Have any demand been made to you for goods and/or entertainment directly or indirectly by the officers or employees of this company?

① Yes ② No

* If the answer is yes, what is the frequency within the recent year?
() times

Question 12) Has your company ever provided goods or entertainment to any other officers or employees?

① Yes ② No

* If the answer is yes, what is the frequency within the recent year? () times

Question 13) From the department stores below, please select one with the most and the least professional employees.

* Most Outstanding () * Least Outstanding ()

- ① Main Store ② Youngdeungpo Store ③ Mia Store ④ Incheon Store
⑤ Gwangju Store ⑥ Masan Store ⑦ Gangnam Store

Question 14) From the department stores below, please select 3 most outstanding stores in the level of professionalism among employees in sequence.

* Rank: 1st () 2nd () 3rd ()

- ① Galleria ② Gyengbangpil ③ Grand ④ New Core
⑤ Lotte ⑥ Midopa ⑦ Samsung Plaza ⑧ Shinsegae
⑨ Aekyong ⑩ LG ⑪ Hyundai ⑫ Other ()

(5) - ② The company sends cooperation request official notice to affiliate companies for establishing a legitimate commercial practice twice or more in a year.

[Cooperation Request Official Notice Sent for *Chuseok(Korean Thanksgiving Day)*, 2001]

We wish your company everlasting prosperity!

On behalf of all our officers and employees, we appreciate deeply your kind support and encouragement shown for Shinsegae under turbulent economic and management circumstances.

We at Shinsegae, have selected ethical management as our new corporate philosophy in December, 1999 and put all our efforts and activities toward becoming the world's best distribution company.

Within a short period of time, the ethical management has implemented its philosophy in the management and other work areas of Shinsegae and has been realized only with the support and the participation of your good company.

However, we at Shisegae have been doing all we can but there are still areas of improvements, and the settlement of ethical management is a matter that is impossible to achieve with the efforts of Shinsegae alone. Thereby, we, once again, seek your active cooperation and participation for our mutual existence and prosperity under a fair and transparent business culture based on corporate ethics.

For the establishment of legitimate business practices, we would ask your cooperation not to provide any good or gift to our officers or employees this coming Chuseok(Korean Thanksgiving Day).

Along with that, when there is a demand or action by our employee or officer that is contrary to our ethical management policy, please contact our Office of Corporate Ethics Practice and we shall make corrections immediately. (Tel.: 82-2-727-1080-8, Fax: 82-2-727-1193)

On this happy holiday, Chuseok, we wish your company and your home luck and prosperity at all times.

September 13, 2001

Shinsegae Co., Ltd.
CEO & President: Hak Su Koo (seal)

[Official Notice that the officers and employees of Shinsegae endorsed with the signatures committing themselves for ethical management]

To all of you helping Shinsegae

Today, the Korea's economy is under a great stress and is facing with many difficulties. There are many reasons why we are under such a dubious position, the morality of our society in general is the biggest problem. The establishment of ethics is a difficult issue that can't be resolved over-night. Unless our economy practice ethics appropriately, our economy and legitimate corporate culture, will be extremely difficult to revive in spite of astronomical injection of public funds.

We at Sinsegae, have a management philosophy contributing to the nation and community with co-existence and co-prosperity to all parties involve in our business including our customers, shareholders, employees and affiliate companies on the basis of corporate ethics. We are determined to lead the nation in establishing corporate ethics at whatever the price that we may have to pay.

In order to practice corporate ethics, we absolutely need advice, cooperation and words of encouragement from those of you who have been giving us a great share of assistance. Please continue your support by admonishing us whenever it is needed and rendering your help with instructions even for a single unethical action.

The following may be insignificant but are the ones that we must practice. They may not fit into the living customs and sentiment and may cause lack of respect, but we ask for you forgiveness and understanding:

- (1) We do not give or receive any gift or good regardless of its magnitude under any names including holidays, anniversary or business trips.
- (2) We will pay for our share when we have a cup of tea or lunch with affiliate companies (including those during overseas business trip)
- (3) Except for official events of the company, all our employees shall pay for respective expenses for meetings (golf, tennis, etc.) on individual basis.
- (4) We shall not go to the golf course or any other places during the work hour and will not have go to high-class room salon even after work.
- (5) We shall strictly distinguish between official and private actions and shall not use company goods or expenses for individual use, and shall not use product samples without authorization.
- (6) We will not notify the people whom we have gotten to know on the job, personal relations including family members or friends and others, of any events, nor shall we receive any money for these events.

We, the officers and employees at Shinsegae, hereby once again commit ourselves to comply with the above and we sincerely ask for your kind cooperation and encouragement once again.

December 1, 2000

CEO & President, Shinsegae Co., Ltd.: Hak Su Koo (seal)

CEO & President, Department Store Division: Jin Hyun Kim (seal)

CEO & President, E-mart Division: Kyung Kyu Hwang (seal)