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Learning from Northern European companies – green and sustainable management

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In this interview with Forbes Korea, Reddal Senior Client Director Dr. Per Stenius discusses the development of sustainable management in Korean companies, drawing on learnings from the Nordic countries.

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Foreword
The paradigm of management is changing. Companies that used to prioritize increasing sales and profits now focus on non-financial value as well. It is 'sustainable management' that communicates with society and emphasizes ethical responsibility. Korean companies are just beginning to introduce the concept of sustainable management. What can we learn from the Nordic companies that started sustainable management one step ahead? We hear from Per Stenius, CEO of Reddal.

European companies actively introduced eco-friendly systems for sustainable management early on. As is well known, the European Union (EU) has been taking the lead in responding to the climate crisis in accordance with the Kyoto Protocol and the Paris Climate Agreement since the late 1990s. A representative example is the declaration of '2050 Carbon Neutrality' (the state in which net greenhouse gas emissions are '0'). In sectors that cause serious pollution, such as energy and aviation industries, the Emissions Trading System (a system that permits trade in emission rights between business establishments and countries) is being introduced in an efficient way. This is an unavoidable change in some industries and is regarded as a problem of 'adaptation or extinction'. "Companies that have been unable to make profits in the old way due to dramatic changes in environmental laws are 'adapting' to the new era in their own way," said Per Stenius, CEO of Reddal. "Even Norway, not a member of the EU, is participating in the Emissions Trading System," he explained. In particular, he added, "Nordic countries and companies, which have a very strong bond with nature, are setting and implementing more practical goals to change the world and the economy in an environmentally friendly way."

According to Per, Nordic countries are making different environmental protection plans to suit their natural environment. Denmark, which has a long coastline, actively utilizes wind energy as a renewable energy source, and Norway, which has huge mountains with snow and ice, invests heavily in hydroelectric power. Finland and Sweden, which have large forests, encourage the use of biomass (a living organism that synthesizes organic matter by receiving solar energy). As a result, from 1990 to 2013, Sweden achieved a 58% GDP growth while reducing greenhouse gas emissions by 22%. Currently, Sweden uses more than half of its energy from renewable sources and aims to become a net greenhouse gas emissions-free by 2050. Finland aims to reach carbon neutrality by 2035. Neste, the largest energy company in Finland, has specific plans to reduce customer CO_2 emissions by the equivalent of 20 million tonnes per year. According to the plan, Neste can achieve carbon neutrality in its production sector by 2035.

Recently, biodiversity protection has emerged as a new task for sustainable management. Companies are taking part in forest conservation and habitat creation for endangered species. For example, a group called Business@Biodiversity Sweden has started working with private companies to tackle biodiversity loss. This group is conducting research with the goal of possessing scientific know-how related to biodiversity loss. It also suggests conservation activities such as wetland restoration that private companies can participate in.

Why are Nordic companies so passionate about eco-friendly management? "Climate insecurity is a common stress to the people of Nordic countries," Per explained. In fact, in Northern Europe, 'environmental protection' is a national concern that goes beyond governments and businesses. Nordic countries are enthusiastically supporting the activities of Greta Thunberg, a world-renowned environmental activist from Sweden. As an example, Swedish power company Vattenfall is delivering concrete measures of 'fossil fuel-free energy solutions' to the public through a podcast. "The Nordic people, who are very interested in eco-friendliness, prefer such products and services," says Per. "When making a choice, we closely scrutinize their 'green policies', which acts as a subtle pressure on companies," he said. He points to the fact that many Nordic companies voluntarily publish GRI (an international organization that provides guidelines for the preparation of sustainability reports) indices. "This is the reason behind voluntary reporting," Per says, "it is simply good business".

Sustainability evaluation and subsidy support

A large amount of capital is invested in projects for sustainable management. No matter how good the intention, it can be burdensome for a company. This is especially true for small businesses. In response, Per cited energy companies such as Neste and ST1 as examples. "However, Neste is a relatively large government-owned company, and ST1 is a small privately held company. Neste is running it in a relatively standardized way, while the reality is that ST1 cannot keep up with that level. Yet, ST1 has been quite creative in its approach."

To this end, Nordic countries are providing various supports to reduce the burden on companies. "The state provides a lot of subsidies, including R&D support, to companies pursuing sustainable management," said Per. Business Finland (a government agency under the Ministry of Employment and Economics) provides funding to new or growing companies, and they carefully scrutinize export prospects and sustainability criteria when selecting sponsees. The government has also created a fund for businesses that are helping to mitigate climate change but are struggling with financing.

Although there are lots of support and benefits, not all companies participate in sustainable management. This is the case for conservative industries that do not have direct contact with consumers. "Sectors that are less affected by environmental laws for one reason or another, such as construction, media, manufacturing, and marine industries, are slow to accept and apply sustainability-related practices," said Per. "In industries with a very high level of subcontracting, such as construction and marine, it is difficult to measure emissions accurately, making it difficult to manage and supervise them."

What is the situation in Korea? "When we investigated 32 Korean companies, we were able to find two major facts," he added. First, Korean companies' long-term plans for environmental sustainability are somewhat unclear. "Korean companies are doing well in reporting environmental indicators and data, and in this context, they are meticulously reporting results on greenhouse gas and non-greenhouse gas emissions. On the other hand, few have precise reduction targets and short- or medium-term action plans. For example, while more than 86% of Finnish companies have GHG reduction targets, only 67% of Korean companies have these targets."

In particular, he said that the situation of Korean companies in waste reduction and non-greenhouse gas sectors is worse. In the Reddal research sample, while 46% of Finnish companies had specific targets for waste reduction, only 6% of Korean companies had reduction targets. "In the case of non-greenhouse gas emissions, it was shown that 73% of Finnish companies and 5% of Korean companies set targets. Korean companies need to put effort into setting measurable targets and draw up actionable plans to achieve them," he advised.

The second characteristic that Per found is that Korean companies' efforts for environmental sustainability are progressing bottom-up rather than an integrated top-down approach. In particular, in the case of large corporations, he said that there was a difference in the efforts between subsidiaries made on environmental sustainability issues. "This suggests that each subsidiary is working on its own to meet the ESG index chosen by itself, rather than collectively managing their environmental sustainability efforts at the corporate level". This may lead to less stringent follow-up of results, and therefore be less effective in the long term.

Per said that Reddal also looked at the efforts of the Korean government in relation to sustainability. "Recently, the Korean government has announced a draft plan for its own ESG index called K-ESG," he said. "The Korean government is concerned with information disclosure, environmental and social impact and governance, planning to establish 81 criteria in 4 related categories." He continued, "Whether the new index will be used effectively in a global context is another matter, and it may cause procedural problems for Korean companies to re-pass the certification standards required in the global market."

In order for Korean companies to continue better sustainable management, Per pointed out that "the overall standard for measuring and evaluating sustainability efforts should be established." He explained, "It is important to have standards and goals, but the first thing to consider is the impact of sustainability management on the business of the company." It's a good starting point to look at customers and see what they can get from companies that provide sustainable solutions.

Sustainability management is essential, not optional

Then, what is the success strategy of Korean companies that have entered overseas countries being one step ahead in sustainability management? Per gave the answer to this question as follows. "When setting up sustainability reporting and governance, it is good to refer to the 'frameworks' of UNSDG (United Nations Development Group) and GRI. There is also something Korean companies need to remember when selling products to customers in Europe and the United States. Western companies usually have to meet stringent sustainability requirements. Companies are also doing their best to maintain the best image in terms of sustainability. Korean companies will also have to meet sustainability-related requirements at a high level to gain opportunities. Sustainability is an essential element of business and an opportunity to enter the European and American markets."