Does adopting a gender positive ESG policy improve corporate financial performance? Evidence from ageing and depopulating South Korea.

* **Peter Matanle**, *University of Sheffield*
Yang Li, *University of Sheffield*
Zhamayne Fakharuzi, *University of Sheffield*
Yejin Shin, *University of Edinburgh*

Introduction

Demographic pressures arising from low fertility, ageing, and depopulation mean that the most successful economies of the future will likely be those which successfully mobilise people from currently under-represented groups into sustainable high productivity employment and advance the best of these into management and executive roles (Bloom, Canning & Fink, 2010; OECD, 2019).

South Korea and Japan are in the vanguard among East Asian countries most at risk of experiencing long-term slower economic growth from the changing demographic and labour force dynamics sweeping across the world's developed economies. Hence, there is no guarantee that East Asia will remain an engine of global economic growth that it has been since the 1950s when Japan began its 'economic miracle' and led the region into prosperity. Conversely, due to their relatively low starting base, highly educated and conscientious populations, advanced technological capabilities, and competent governments (Chang, 2006; Vogel, 1979), both countries also stand to benefit from the opportunities that adapting to this emerging reality presents.

We research the employment practices of the largest listed South Korean corporations and, where relevant, make comparative reference to the Japanese demographic and labour force development experience. We take an ESG (Environment, Social, & Governance) investment perspective, focusing mainly on companies' implementation of DEI (Diversity, Equity & Inclusion) policies. We do this because, under the financial logic of ESG, among labour force adaptation measures available to corporations, a strong DEI policy is potentially a comparative advantage where competition to hire the best workers is intensifying under an ageing and depopulating society, and access to the capital needed to secure sustainable business expansion requires companies to align themselves with investors' ESG mandates (Friede, Busch & Bassen, 2015; Rock & Grant, 2014).

Overall, previous literature consistently supports the positive relationship between ESG performance and financial performance. Companies with strong ESG practices tend to outperform their peers in terms of operational metrics, stock prices, and risk management. The growing body of evidence highlights the importance of integrating ESG factors into business strategies and investment decisions, reinforcing the value of sustainable and responsible corporate behaviour. The social (S) factor in particular plays a crucial role in enhancing financial performance through improved employee satisfaction, diversity, and community engagement. As ESG considerations continue to evolve, their integration into corporate and investment practices is likely to become increasingly critical for long-term financial success under the demographic transition to ageing and depopulation. Current ESG practices in South Korea have some shortcomings due to reliance on firms' self-reports or own surveys leading to generation bias and inconsistency in reports. Thus, this study examines ESG reports from the top 55 companies in the Korea Composite Stock Price Index (KOSPI) and its relationship to financial performance in three factors: revenue, share price and EBITDA.

Methodology

In order to examine the relationship between different ESG dimensions and financial performance we conducted (i) correlation analysis on all variables and (ii) regression analysis with financial components (EBITDA, share price and revenue).

ESG factors contribute to companies' cost reductions through efficiency improvements and regulatory compliance (Millet, 2019). Correspondingly, through ESG measures, sustainable management enhances customer loyalty and brand value, bringing stable revenues to companies. Moreover, gaining the trust from investors is expected to reduce financing costs (Giese & Shah, 2024; Whelan *et al*. 2021). To verify whether these findings apply to Korean companies, by conducting multiple regression analysis (Models 1 and 2), we examine the impact of 6 DEI variables on Revenue and EBITDA changes of 55 listed companies over a five year period from 2018 to 2022.

Results and Analysis

Our analysis generated several important findings. The results indicate that companies ESG performance can act as a catalyst to improve their overall financial performance. This result is significant in the context of an ageing and depopulating society and is potentially so for any society experiencing the demographic transition to ageing and depopulation, and a competition for workers in a shrinking labour force. Our study makes theoretical contributions by extending the existing literature on the relationship between ESG and financial performance, with South Korea as the research object and employment practices as the subject of study.

As a result, we estimate that enterprises should improve their ESG performance, fully incorporate ESG concepts into corporate culture construction and mechanism design and implement them in all aspects such as business dealings, product development, employee training, customer service, and social welfare. Investors should incorporate corporate ESG performance into their investment decision-making framework. Governments and regulatory authorities should create a good institutional environment for corporate ESG construction.

Through adopting gender positive ESG policies we demonstrate that South Korean companies can improve their financial performance, thereby improving returns to investment. Crucially, companies can use these policies to compensate for the challenges of maintaining a high-performance workforce under severe demographic pressures from ageing and depopulation. Moreover, such policies will lead to a more diverse, equitable, and inclusive workforce and society. We estimate, also, that adopting similar policies towards disabled and foreign workers will result in improved financial performance and a more inclusive society.

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