

3. From Stakeholder Communication to Engagement: A Case Study of LG Electronics (LGE).

3.1. Overview of LGE

LGE is a global company with revenue totalling KRW 63.3 trillion (roughly USD 56.9 billion) in 2020. It has more than 100 business sites around the world and produces technologically innovative products and electronic goods, including televisions, mobile communication equipment, washing machines, refrigerators, car parts and solar panels.

LGE launched its business in Korea in 1958 and produced various electronic goods, such as radio sets (model A501), telephones, TVs and air conditioners—becoming the first company to do so in Korea. It was also the first electronics firm to go public in 1973 and established the first private research institute in 1975, laying the foundation for the company to be grounded in transparent business management and technological innovation. In 1982, LGE established its first overseas production base in Huntsville, USA, accelerating its global reach and access to advanced technology. In 1989, however, the company went through a crisis stemming from a large scale labor dispute and demands to open up Korea's domestic market. Since then, LGE has overcome these crises through sweeping changes in management strategy and a new operating system based on a globalization strategy to establish local factories in Europe, China and Southeast Asia.

With regard to company identity, the company changed its name from Goldstar to LG Electronics in 1995 and restructured the corporate governance system into a holding company structure in 2003. A dedicated CSR (corporate social responsibility) department at LGE headquarters was established in 2008 in an effort to spearhead systematic implementation of the firm's Corporate Sustainability Management (CSM) strategies. In 2015, LGE officially announced its CSR vision of "cooperating toward a better life for all" to contribute to achieving the SDGs. In this sense, the firm aimed to not only become a market leader in terms of products and technology but to cement its position as a responsible firm in economic, social and environmental spheres to meet the growing needs of global stakeholders.

3.2. Parties of Interest for LGE

LGE is influenced by and influences a wide range of local and overseas stakeholders through its business activities. In order to understand stakeholder needs (which can then be reflected in business decisions), communication between management and stakeholders via appropriate channels is crucial. Given the centrality of stakeholder communication, the company has made efforts to better define stakeholder scope and tailor its communication approaches when it comes to coordinating efforts to achieve a global agenda.

3.2.1. Stakeholder Selection

Between the 1990s and 2006, LGE's priorities included identifying key stakeholders and improving communication. Although the company was already committed to communicating with global stakeholders on core aspects of its business activities, communication had become even more important within the framework of corporate social impacts and growing stakeholder demands. As effective stakeholder communication was increasingly seen as the best way to ensure mutual prosperity, the company began to focus on identifying and responding to stakeholders' views and needs. To do this, the company first distinguished between external and internal stakeholders and, based on this classification, designed a communication strategy for each target group.

For external stakeholders, targets and characteristics of external stakeholders include the following: (1) shareholders and investors; (2) customers; (3) business partners; (4)

governments; (5) NGOs (non-governmental organizations) and civic groups; (6) communities; (7) industry peers; and (8) academia and opinion leaders.

Shareholders and investors: Increasingly, we have seen a surge in interest among investors regarding corporate sustainability. For example, global investment institutions such as Blackrock and Korea's National Pension Service (NPS) have been emphasizing environmental, social and governance practices when it comes to making investment decisions. As such, communication with shareholders and investors is very important. Primary communication channels include the general shareholders' meeting, performance presentations, IR (Investor relations) meetings, LGE's website, management and business reports, while stakeholders' key expectations include (1) disclosure and transparency; (2) increased investment value through efficient management; (3) corporate value improvement through sustainable activities; and (4) efforts to enhance ESG (environmental, social, governance) impacts.

Customers: LGE communicates with customers through sales stores, service centers, surveys, exhibitions, websites, social networking services (SNS) and prosumer management activities. Customers primarily have expectations for (1) the provision of safe products and services; (2) fair marketing and accurate information disclosure; (3) privacy protection; and (4) customer protection.

Business partners: LGE communicates with business partners, such as suppliers, through its Global Supplier's Day, supplier portal system, satisfaction surveys, funds and programs for supporting suppliers. Business partners pay particular attention to fair trade issues and timely payment, with LGE also supporting suppliers' CSR activities.

Governments: As government policy and positioning play a significant role in business operations, the government constitutes an important stakeholder, especially as policies for business often differ by country and region. LGE communicates with central and/or local governments through public hearings, discussion meetings and seminars. The government has high expectations for the company, including legal compliance, tax regulations and cooperation with government policies.

NGOs and civic groups: Especially with the start of the SDGs, NGOs and civic groups have emerged as important stakeholders. With a growing number of companies declaring their support for the achievement of the SDGs, NGOs and civic groups have the opportunity to strictly monitor corporate pledges. In particular, advocacy-focused NGOs serve as a powerful watchdog for companies, as they monitor the veracity of SDG-related activities. LGE communicates with NGOs mainly through seminars, discussion meetings, community distribution activities and the corporate website, while expectations of the company include (1) environmental protection; (2) participating in and supporting tackling global social issues; (3) contributing to achieving the SDGs; (4) contributing to labor and human rights protection; and (5) bridging the digital divide.

Communities: As LGE conducts business in more than 100 countries, effective communication includes interacting with members of communities who come from diverse cultures and backgrounds. The company maintains close relationships through community care activities, sports sponsorships, discussion meetings and through the corporate website. Communities request the minimization of environmental impacts near facilities, respect for the culture and traditions of local communities, promotion of contributions to local communities and contributions to the local economy by hiring local employees to LGE.

Industry peers: LGE joined the RBA (Responsible Business Alliance, formerly EICC) in 2010 and works with the industry to create and comply with standards related to sustainable management and CSR. While industry peers also represent a source of business competition, they are also avid supporters of sustainable management and thus help contribute to the mainstreaming of sustainable management practices. As such, since 2013, LGE has included industrial peers in its main stakeholder pool to identify industry trends and collect opinions.

Academia and opinion leaders: As academic circles and related stakeholders can provide additional perspectives on management practices, LGE receives feedback on ways to improve sustainable management and often conducts joint research on specific issues.

When it comes to internal stakeholders, key stakeholder groups include (1) employees; (2) subsidiaries; and (3) LG group affiliates. Key targets and characteristics for each group are outlined as follows:

Employees: Executives and employees are important stakeholders and the company encourages voluntary participation by helping them understand and implement sustainable management practices. This includes regular training programs for executives and employees and incorporating sustainable management as a key agenda item in business meetings organized by top management.

Subsidiaries: While LGE's overseas subsidiaries were not originally included in the company's list of stakeholders, subsidiaries became increasingly important as it became clear that effective coordination with regard to laws, regulations and community needs related to sustainable management was needed to achieve the SDGs.

LG group affiliates: As the LG Group is comprised of electronics, chemical and telecommunications companies, LGE includes LG Group affiliates among key internal stakeholders to create synergy for the group's CSR strategy and to enhance business synergy between each company.

3.2.2. Changes in LGE's View on Stakeholder Management

While LGE sets targets as defined in 3.2.1 for its main stakeholders and collects feedback on sustainable management activities, this paper also notes changes in perspectives on stakeholder management over time. Until 2006, LGE stakeholder management was described as "Stakeholder Communication". This period marked the introduction of stakeholder communication activities, and, as such, forming relationships with various stakeholders was the company's biggest priority. Core activities consisted of collecting opinions and needs from stakeholders.

Between 2006 and 2014, LGE's view on stakeholder management activities was defined in terms of "Stakeholder Involvement". This marked a period when stakeholder participation was further expanded from the previous notion of "Stakeholder Communication". In the previous stage, LGE recognized the importance of stakeholder management and focused on forming relationships, while in the "Stakeholder Involvement" stage, the company introduced stakeholder advisory meetings, listened to stakeholders' opinions more actively and began to receive acknowledgement that the company was interested in sustainable management activities and contributing to the then-Millennium Development Goals (MDGs).

Since 2015, LGE has been managing stakeholders from the perspective of "Stakeholder Engagement". Through to this point, LGE had expanded participation with stakeholders from "communication" to "involvement". However, the "engagement" phase marked a substantive shift in reflecting stakeholder needs, from the selection of goals for sustainable management and reflecting feedback on efforts to achieve those goals. Establishing priorities for LGE's sustainable management activities and matching this with respective SDGs also began during this stage of engagement. One of the biggest achievements in the stakeholder engagement phase was the declaration of LGE's Sustainability Commitments in 2017. Based on the economic, social and environmental issues that stakeholders consider important, LGE set mid- to long-term goals that can contribute to the achievement of the SDGs and included management's initiatives to implement them.

3.2.3. Stakeholder Requirements Analysis

LGE has made concerted efforts to reflect corporate sustainability issues raised by stakeholders in internal decision-making processes and systems. The company identifies corporate sustainability issues that are of interest to stakeholders based on feedback received through reader surveys in sustainability reports, media research analysis, interviews and surveys with expert groups and by deriving best practices and benchmarking sustainability reports of competitors and major global corporations. In addition, the company monitors and

analyzes global sustainability management initiatives and evaluation systems, the company's vision and strategy, issues in the electronics industry and media exposure from a comprehensive perspective to identify important issues related to sustainability management. LGE also conducts surveys of internal and external experts to assess priorities and impacts of key issues.

Among these stakeholders' requirements, there was an opinion from NGOs in 2010 that LGE—as a major player in the global business landscape—should have keen interest in the MDGs. As a result of that engagement, LGE added “Contribute to Achieving UN Millennium Development Goals” to its social contribution framework and focused on activities that could contribute to the achievement of the MDGs, particularly in the areas of preventing environmental disease, promoting environmental sustainability and helping to eradicate poverty in development countries (see Figure 2). Since 2015 and the subsequent emphasis on SDGs by the government as well as by NGOs, LGE has been using the SDGs as primary indicators for sustainable management.

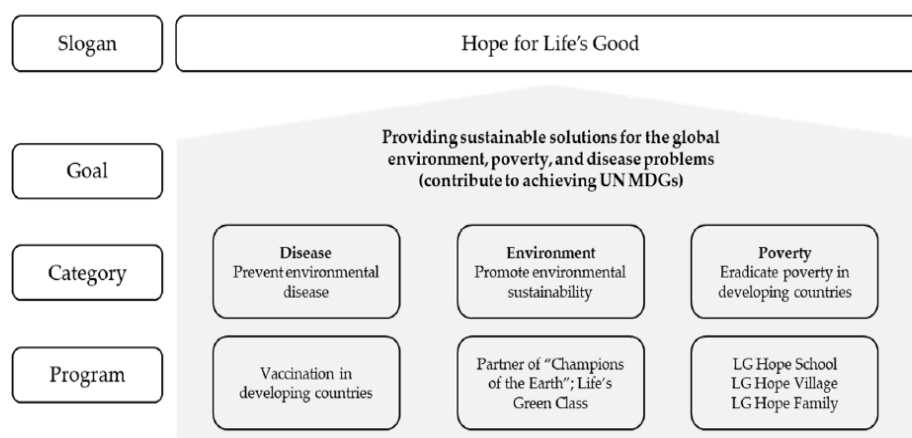


Figure 2. LGE's Social Contribution Framework (2010–2014). Source: LG Electronics Sustainability Report 2011–2012.

3.3. LGE's Stakeholder Engagement Process

LGE implements a systematic process to gather opinions from stakeholders. The company conducts a materiality assessment in-line with the principles of sustainability, materiality, stakeholder participation and completeness, which are also information disclosure principles of the Global Reporting Initiative (GRI) standards. To identify important sustainability management issues, LGE analyzes global sustainability management initiatives and evaluation systems, including the Dow Jones Sustainability Index (DJSI), The Financial Times Stock Exchange (FTSE) and the Responsible Business Alliance (RBA), the company's vision and strategy, issues in the electronics industry and media exposure. The company also conducts regular surveys of When it comes to the actual engagement process, the company first analyzes what issues would be of most interest to key stakeholders, as defined in Table 1. These sustainability management issues are deduced from a review of global sustainability management standards and initiatives, evaluation of system analysis and best practices in the industry and through a review of internal directions of the company's vision and business strategy. Stakeholders' requests and media interest are also taken into serious consideration.

Table 1. Changes in stakeholders over time ¹.

Stakeholders		~2006	2007–2012	2013–2014	2015–Present
External	Shareholders/Investors	O	O	O	O
	Customers	O	O	O	O
	Business Partners (Suppliers)	O	O	O	O
	Governments	O	O	O	O
	NGOs/Civil Groups	O	O	O	O
	Communities		O	O	O
	Industry Peers			O	O
	Academia/Opinion Leaders			O	O
	Employees	O	O	O	O
Internal	Subsidiaries				O
	LG Group Affiliates				O

¹ Based on an analysis of company sustainability reports and data.

Next, based on this list, the company prioritizes key issues based on surveys that aim to identify which areas LGE should focus on. The company quantifies the impact of these issues from four perspectives: (1) strategy;(2) finance;(3) management; and (4) reputation.

Based on this materiality assessment of external and internal stakeholders, key priorities among the large pool of issues investigated are set.

Finally, items in need of improvement are targeted and time-tested by each department. These have been classified into three categories: (1) promotion of intelligent lifestyles; (2) realization of zero carbon and a circular economy; and (3) creation of a better society, in connection with LGE's mid- to long-term sustainability management goals. Elements included in reporting include the management approach, strategic direction, activities and achievements, goals and progress; the results of which are re-shared with stakeholders to complete the engagement process.

As mentioned earlier, LGE identified internal and external stakeholder groups, such as customers, suppliers, evaluation agencies and local communities. As an example of one method used to gather opinions from these stakeholders, LGE has operated stakeholder consultations since 2010. LGE conducts interviews and consultations with stakeholders to check the status and direction of LGE's sustainability management. Participants of these consultations include experts in various areas, such as human rights, the environment and the local community, as well as LGE managers related to these areas of business. Through these consultations, stakeholders and company representatives share their ideas on how to build a better future for the company. LGE also then reflects the opinions of stakeholders regarding sustainable growth in its management activities.

3.4. LGE's Corporate Sustainability Management (CSM) System

From early on, LGE has sought to create customer value based on the principle of respect-based management. A Corporate Sustainability Management (CSM) task force team was created at the end of 2005 to provide a systematic approach to sustainability management and build a foundation for company-wide sustainability activities. LGE also created a CSM forum with the CSM task force at its core, while also including all company divisions related to management strategy, human resources, social contribution, ethics, finance, corporate culture and the environment. The forum is responsible for promoting in-house understanding of the importance of CSM activities, with participants being able to share information on activities pursued by each business division, build stronger networks and help prepare the Sustainability Report among others (see Table 2).

Table 2. LGE's initial CSM direction.

Communication		Value
External	Relationship	Market Leadership
	- Strengthening communication with stakeholders	- Expanding global leadership
	- Actively communicating on CSM activities	- Enhancing brand value and leading the global electronics industry
Internal	Integration	Risk Management
	- Creating CSM system	- Systematically managing risk
	- Setting up internal system for sustainable management	- Managing non-financial risks through a systematic approach

To spearhead a lean and more systematic approach to CSM adept at understanding and implementing global sustainability standards, LGE created a CSM office in 2007. Since then, the company's CSM activities have been overseen by the CSM office and are carried out in close cooperation among related departments. The emphasis has been on formulating CSM strategies and a roadmap for implementation, integrated management of non-financial risks and performance, building up internal competencies, brand management and marketing and linking CSM activities with stakeholder communication.

Since 2009, LGE has also operated its CSR Committee (which is constituted by top executives, including the CEO) to brief executives on major CSR and CSM agendas and obtain top management decisions on related issues. In addition, LGE reports on CSR issues—buyer requests, risk assessment results and social contribution efforts—in management meetings for each business company, in which the company president and executives participate to raise management awareness on CSM issues and facilitate improvement efforts. LGE's working-level CSR Staff Council, which consists of CSR managers from company headquarters, business companies and overseas subsidiaries, is organized into three working-level groups that handle (1) stakeholder engagement; (2) social contribution; and (3) risk management issues, respectively. In addition to training CSR managers to build up core competencies, the council is entrusted with formulating specific action plans and improvement measures for each area and translating CSR objectives into actual performance initiatives.

3.5. LGE and the Millennium Development Goals (MDGs)

Prior to the launch of the Sustainable Development Goals in 2015, LGE began engagement in international initiatives in earnest in 2010 when the company announced its intention to contribute to the UN Millennium Development Goals. With the company having strengthened global social contributions since 2009 and with the focus of activities centering on disease, environment and poverty issues, LGE was asked by overseas stakeholders to join the effort to the MDGs. As a result, the company included MDGs within its Social Contribution Framework in 2010, and the MDGs had become important indicators in LGE's social contribution areas.

Of the eight MDGs, LGE focused its activities on MDG 1 (Poverty Eradication), MDG 2 (Education), MDG 6 (Disease Eradication), MDG 7 (Sustainability) and MDG 8 (Global Partnership) between 2010 and 2015. To achieve MDG 7 and MDG 8, LGE supported and became a strategic partner for international organizations such as the United Nations Environment Programme (UNEP), established partnerships with universities, operated the "Life's Green Class" program, and conducted environment and science education programs for teenagers. In order to achieve MDG1, MDG2 and MDG7, the LG Hope Partnership was established with the United Nations World Food Programme (UN WFP). The partnership

helped provide school meals in Ethiopia and Kenya to cultivate educational opportunities for children and programs to help local communities through rural development programs in Bangladesh and Cambodia. It also hosted a campaign to fight hunger with Médecins Sans Frontières (MSF) to support the production and screening of a documentary on the theme of hunger. Regarding MDG 6 and MDG 8, LGE sponsored vaccine research and development and vaccination for the purpose of preventing environmental diseases in less-developed countries with the International Vaccine Institute (IVI). In particular, LGE and IVI completed development of vaccines to prevent Ethiopian cholera disease and provided free vaccinations to residents.

3.6. LGE and the Sustainable Development Goals (SDGs)

Ahead of the start of UN SDGs in 2016, LGE established a new Social Distribution Framework that reflected the intent and purpose of the SDGs. The framework was based on a re-examination and reformulation of key principles that govern the company's social contribution efforts through intense discussions with key stakeholders and management.

In line with these new guidelines, the company was committed to expanding the impact and range of contributions in addressing social issues, and, in the longer term, generating positive and enduring change in communities. Rather than having categories such as “disease”, “environment” and “poverty”, as utilized in the past, the goal of the new framework was framed within the broader objective of “working together to achieve SDGs”. Based on that, a period of brainstorming of specific goals of what and how the company should achieve SDGs was set in motion.

The subsequent vision for sustainability reflected the core belief that empathy in the company's mindset and consideration of its actions would contribute to building a better society. These principles, which have been embedded in the SDGs, were blended into LGE's three strategic directions for sustainability (see Figure 3). First, the company would commit to delivering differentiated value to those who need its products and technologies. In line with this, the company continues to develop and distribute products and technologies that help address social and environmental issues in communities. Second, the company would value stakeholder opinions and make every effort to engage and collaborate with stakeholders through diverse channels. This includes incorporating engagement outcomes into business operations. Third, every member of the organization would continuously explore ways in which the company can help those in need and build a better life together. This includes volunteering time and expertise to create a community where everyone feels respected and valued.

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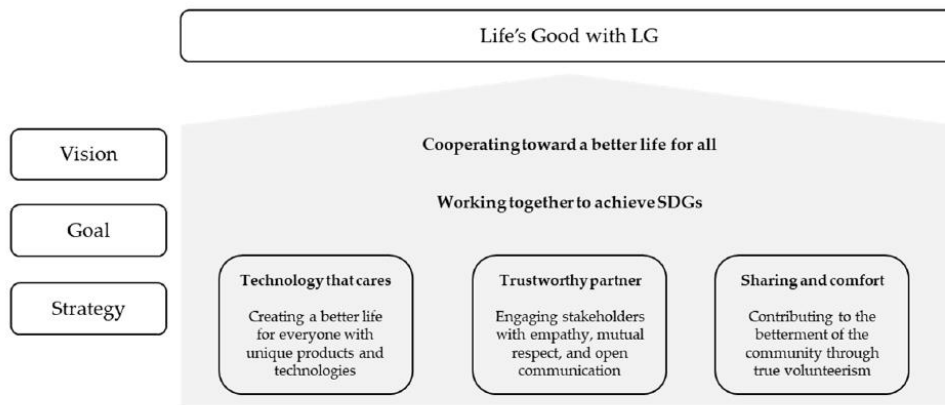


Figure 3. LGE's Social Contribution Framework from 2015. Source: LG Electronics Sustainability Report 2015–2016.

Through careful study of the SDGs and associated targets, LGE has assessed the relevance of these goals and targets for its own sustainability initiatives while also taking into account overall management conditions, such as the nature and purpose of business operations and future opportunities and risks. The end result of this process was the identification of nine SDGs that have considerable relevance to LGE's goals, businesses and core competencies. The company has also prioritized these goals to strategize actions, with the company planning to focus on SDGs that are highly relevant to businesses and core competencies.

4. Focus on Governance

4.1. LGE's Governance for the SDGs

In LGE's case, the launch of the holding company system laid the groundwork for heightened transparency. The LG Group was able to put an end to cross-shareholding among affiliates, as the holding company was fully responsible for investments, and LGE was able to concentrate on increasing corporate value through its own operations.

Importantly, the company successfully implemented a system of professional management, while its BOD-focused system has improved corporate transparency. Through these efforts, LGE set up a framework to strengthen business competitiveness at home and abroad, ultimately increasing shareholder and corporate value.

In terms of communication, one important initiative has been the constant development of communication channels, such as campaigns to raise public awareness about sustainability management. To ensure that stakeholders' expectations and demands are promptly reflected in the company's business activities, LGE has promoted the functions of the CSR Council and raised the top management's awareness on sustainability, thereby enhancing overall governance for sustainability management.

In particular, the CSR Committee is at the core of LGE's CSM (see Figure 4). It regularly reports global trends and the company's strategic direction for sustainable management to the Board of Directors. Decision making in key management meetings, including those at the executive level, takes into consideration the importance of sustainable management. An example of the most practical working group is the "Executive Council for Sustainability Management". The Executive Council tasks each functional department in the enterprise to take practical steps to achieve sustainable management and evaluates these results every year. LGE's CSM-related organizational chart (Figure 4) is shown as follows.

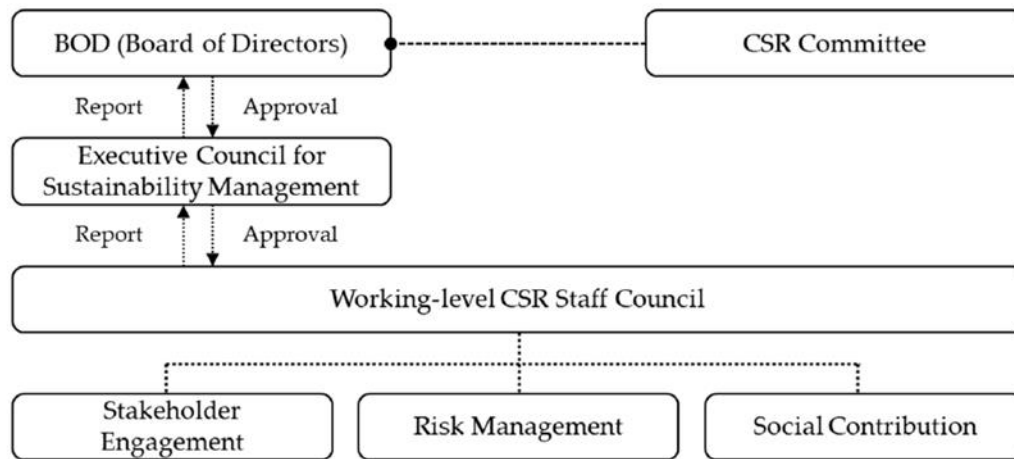


Figure 4. Organization chart for sustainability management. Source: LG Electronics Sustainability Report 2015–2016.

To pursue sustainable growth through stakeholder value creation, LGE established four strategic implementation tasks: (1) sustainability governance; (2) risk management; (3) stakeholder engagement; and (4) strategic social contribution.

In 2009, LGE created the CSR Committee, which is constituted by C-level officers, presidents of companies and regional representatives, and is chaired by the CEO. In 2010, a strategic decision-making process was carried out for activities including membership of the RBA (Responsible Business Alliance, former EICC) and announcement of the company's Global Labor Policy. Corporate sustainability plans were also being shared and discussed on a regular basis through the global CSR Council, which is constituted by CSR Committee members. LGE's participation in international initiatives includes its being a signatory of the UNGC (United Nations Global Compact) in 2009 and its membership in RBA. RBA was founded in 2004 by eight global electronic companies, including HP and IBM, with their declaration of the RBA Code to lead corporate social responsibility. Currently, over 150 companies worldwide (including LGE) have joined to pool efforts in resolving shared issues of the global electronics industry. Through its membership and involvement, LGE has reinforced its policy to respect the RBA Code in all of its Korean and overseas business sites. It has also published the Supplier Code of Conduct in 2010 to provide guidelines for suppliers to effectively fulfill their respective social responsibilities.

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Questions:

Summarise your key findings on:

1. Identify all internal and external stakeholders.
2. Identify the relevant theory(ies) of stakeholder engagement.
3. Evaluate the impact of sustainable stakeholder engagement on the LGE's organisational performances.
4. Overall, assess if stakeholder engagement has been beneficial to LGE business expansion and improved brand reputation through its commitment to sustainability practices?