Employment Relations and HRM in South Korea

Dong-One Kim
Johngseok Bae

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Preface and Acknowledgements

South Korea (Korea, hereafter) is one of the rare countries that have experienced political democratization, economic development, and industrial democratization simultaneously in a relatively short period. Since the 1960s Korea has documented very rapid economic developments by any international standards. Behind the rapid economic growth, however, the country has been criticized for suppressing harshly the labour movement for the interest of economic development. As pressures for greater democracy and political freedoms get intensified, especially after the 1980s, so do calls for employee voices in workplace governance and liberalization of the trade union movement. The movement toward greater industrial democracy was culminated by the Great Labour Struggle in 1987. After this turning point, human resource management (HRM) also experienced paradigm shifting from paternalistic, seniority-based, and longterm-oriented approaches toward a more performance-based, equity-oriented system.

The 1997-1998 financial crisis served as another turning point in Korean employment relations and HRM. On the one hand, the crisis brought waves of employment restructuring and managerial efforts toward further labour market flexibility, which greatly intensified open conflicts between labour and the state. On the other hand, the financial crisis resulted in crisis consciousness among the three actors, and led them to form the Tripartite Commission. The creation of the Tripartite Commission implied that the Korean government regarded labour at least as a counterpart for negotiations and compromise, which could be considered as a step toward greater industrial democracy. In the case of HRM, the seniority-based system has been further eroded and flexibility-based HRM was pursued after the crisis. As whole industries undergo restructuring, psychological contracts have been also changed.

As implied in these turbulent developments in the last four decades, employment relations in Korea have been displaying two dissimilar faces. One face, bright aspects of Korean employment relations, shows continuing real wage growth based upon a rapid economic growth and heavy investments in human resources in the last four decades. The other face, dark aspects of Korean employment relations, reveals the authoritarian and suppressive labour policy, exploitative working conditions for many workers, and extremely aggressive and violent labour disputes. The HRM side similarly displayed two faces. On the one hand, organizations have

emphasized the critical roles of human assets in gaining and sustaining competitive advantage. Hence firms adopted 'people first' or 'respect for people' philosophy and heavily invested in human assets. However, people were not sufficiently empowered and 'brains' and 'hands' were clearly separated. Under the name of 'employability' rather than 'job security', firms more freely laid off employees, and people began to search for jobs. As a necessary consequence, the level of trust between employees and employers has drastically dropped, and firm-specific distinctive strategic competencies may drain away. Ironically, the importance of people (especially top talents) is increasing in this era of knowledge-based economy.

One purpose of this book is to explain these seemingly contradictory outcomes of Korean employment relations and HRM based upon a theoretical framework that incorporates logics of environmental constraints and strategies of actors. Since the 1997-1998 currency crisis, a central task confronting policy-makers in Korea seems to develop models of employment relations and human resource strategies that can best accommodate the demands for both greater industrial democracy and adjustment to a higher value-added economy. Indeed, the Korean policy-makers currently have to create a solution that can enhance both economic competitiveness and industrial democracy simultaneously. Thus, the second purpose of the present book is to provide policy implications that can stimulate constructive debates regarding these 'mutual-gains' strategies.

Work on this book really began in the late 1980s when both of us were studying employment relations at graduate schools, being keenly aware of the pressing issues and acute problems of Korean employment relations and HRM, especially after the 1987 Great Labour Struggle. We clearly recognize that this book is by no means the end of our intellectual journey, but the beginning of our efforts to better understand employment relations and HRM in this unusually dynamic country.

Dong-One Kim thanks Paula Voos, Ken Mericle, and George Strauss for their stimulation during his intellectual journey in the area of employment relations, acknowledges the diligent research assistance of Yoon Ho Kim, Hyun Sik Yun, Sook Kyung Jin, and other research assistants at Korea University. His wife, Kwi-Ok, his daughter, Ji-Eun, and his son, Paul, have been invaluable for their enduring and warmhearted support. Finally, Kim would like to dedicate this book in memory of his parents.

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List of Abbreviations

3D	Dangerous, Dirty, Difficult
AMG	American Military Government
BT	Biotechnology
CDT	Color Display Tubes
CKTU	Confederation of Korean Trade Unions
CPT	Color Picture Tubes
CRT	Cathode Ray Tube
e-HRM	Electronic Human Resource Management
ELSA	Employment, Labour and Social Affairs
ER	Employment Relations
ERP	Enterprise Resource Planning
ESOP	Employee Stock Ownership Programs
EVA	Economic Value-Added
FDI	Foreign Direct Investment
FKTU	Federation of Korean Trade Unions
GDP	Gross Domestic Product
GNP	Gross National Product
HPWO	High Performance Work Organization
HPWS	High Performance Work System
HRD	Human Resource Development
HRM	Human Resource Management
ICFTU	International Confederation of Free Trade Unions
ILO	International Labour Organization
IMD	International Institute for Management Development
IMF	International Monetary Fund
IRS	Industrial Relations Systems
IT	Information Technology
KAL	Korean Air Lines
KCIA	Korean Central Intelligence Agency
KCTU	Korean Confederation of Trade Unions
KEDI	Korean Educational Development Institute
KEF	Korea Employers Federation
KEPCO	Korea Electric Power Corporation
KLI	Korea Labour Institute
LCD	Liquid Crystal Displays
LFPR	Labour Force Participation Rates

LMC	Labour-Management Committee
MBO	Management by Objectives
MNEs	Multi-national Enterprises
NATU	National Alliance of Trade Unions
NCKTU	National Council of Korean Trade Unions
NCTU	National Conference of Trade Unions
NHRS	New Human Resource System
NICs	Newly Industrialized Countries
NT	Nanotechnology
OECD	Organization for Economic Cooperation and Development
OEM	Original Equipment Manufacturer
OPIC	Overseas Private Investment Corporation
PDP	Plasma Display Panel
PDSS	Personal Decision Support System
PHR	Professional in Human Resources
PI	Process Innovations
PM	Personnel Management
POSCO	Pohang Iron and Steel Co.
R&D	Research and Development
SCM	Supply Chain Management
SEC	Samsung Electronic Company
SHRM	Strategic Human Resource Management
SPHR	Senior Professional in Human Resources
TPC	Total Productivity Control
TPI	Total Productivity Innovations
TPM	Total Production Maintenance
ULPs	Unfair Labour Practices
VFD	Vacuum Fluorescent Displays
WTO	World Trade Organization

PART I
INTRODUCTION AND CONTEXTS OF EMPLOYMENT RELATIONS AND HRM

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1 Introduction

The term *insamansa* ('personnel matters are everything') has been widely used by people for generations in South Korea (hereafter Korea as shorthand). It means that personnel or human resources are considered the single most critical factor ensuring organizational success. Many Koreans ascribe the nation's successful economic development from the early 1960s to the 1980s to the efficient mobilization of human resources. However, the full story of economic development reveals both positive and negative aspects to the deployment of labour and human resources. This introductory chapter establishes the conceptual frameworks that will be used in this book. Employment relations/human resource management (ER/HRM) systems are so complex that they defy a simple analysis. In an attempt to provide an overview of such systems, we will first explain the roles of labour and human resources during the period of economic growth, before introducing a general model of ER/HRM systems. This will consist of outlining their general and organizational environments, organizational architecture, the nature of ER/HRM systems and the outcomes (ER, HRM, organizational, financial and national), during three key periods of the previous century (i.e., pre-1987, 1987-1997 and post-1997). Finally, some crucial elements of both ER and HRM systems will be explained.

The Korean Economy and the Roles of Labour and Human Resources[1]

During the 20th century, the Korean economy and society experienced its rise and fall. At each stage of the historical cycle, the nation encountered critical issues needing resolution, and responded with the use of dominant ideologies for each (see Table 1.1). During the colonial period, it was necessary for national independence to be the main issue and nationalism dominated society. The Korean War generated a mood of anti-communism and this ideology prevailed throughout during the subsequent Cold War period. Leaving behind these difficulties, the single most urgent issue was to overcome poverty. This led to a strong impetus towards industrialization. Given the fragile infrastructure and immature markets, the government needed to take the initiative. The dominant ideology was neo-mercantilism. 'The Hermit Kingdom' achieved the economic miracle on the Han River for about three decades. During the process of industrialization, and the rapid growth which resulted, other critical issues included political and industrial democracy,

since this growth was being realized at the expense of civil and labour rights. From 1987 onwards, these rights were slowly granted to citizens and workers. It seemed that the sun would never set on Korea's economic prosperity, until the Asian Crisis hit Korea in 1997. For many Koreans, the IMF bailout program was a national humiliation and loss of face. During this period, globalization and neo-liberalism prevailed.

Table 1.1 Main issues, dominant ideologies and roles of institutions

Period	Main Issues	Dominant Ideology	Roles of Institutions
Pre-1962	• Independence • Reconstruction	• Nationalism • Anti-communism	• All institutions (government, market and firm) less developed • Flimsy infrastructures
1962-1987	• Overcoming poverty	• Industrialization • Neo-mercantilism	• Governments: authoritarian • Markets: immature • Firms: *chaebol* formation and growth
1987-1997	• Re-configuration	• Democracy • Pluralism	• Government failure • Inefficient labour/financial/product markets • Organizations: lax management
Post-1997	• Overcoming the Asian crisis • Restructuring	• Neo-liberalism • Globalization	• All institutions' efforts directed towards repositioning

In each period, institutions took a different role. Before 1962, none of the main institutions (i.e., government, market and firm) were ready for industrialization. From 1962 onwards, given the immature labour, product and financial markets and firms, the government took the initiative to ensure economic development. In the 1980s, firms, vis-à-vis governments, gradually took more active roles in economic activities. When the Asian Crisis hit Korea in 1997, it was argued that all institutions displayed some sort of problem, such as strong government intervention and regulation, rigid and inefficient markets and lax management.

Scholars and commentators have expressed quite diverse views on the principal engine of industrialization in Korea. Korea's economic success has been attributed to external forces (Castley, 1998), the government (Amsden, 1989), the management and private sectors (Kim, 1997; Westphal, 1982), or well-educated people (see Moore and Jennings, 1995). However, taking a position does not seem to be a matter of choice, but rather of emphasis. In addition, the views of the dominant engine have changed over time. A number of arguments have been advanced in relation to this issue.

Firstly, we have the question of 'internal versus external' factors. While many scholars and commentators have emphasized the conditions within Korea driving industrialization and economic growth, Castley (1998) credits external sources, especially Japanese firms. He argues that the growth of the Korean electronics industry was a regional phenomenon rather than a national one, and that it arose as a result of foreign interests (especially the restructuring of the Japanese electronics industry). Japan's motives for direct investment obviously involved a degree of self-interest in terms of factors such as low wages, upgrading their production facilities, geographical proximity, achieving a triangular trade pattern[2] and so forth. In addition, Cathie (1998) regards the infusion of US economic aid as a critical element of Korean industrialization, at least in its early stages. While these factors played a partial role in the process, their ultimate effectiveness hinged on their wise mobilization by internal Korean factors. Whatever the 'donor' countries' motives, host countries have always taken advantage of such industrial situations by building their own capacities (Rowley and Bae, 1998). Hence, we now turn to the internal factors.

The second argument about the main engine of industrialization is the 'state versus free market' view, which has been an ongoing macro-level debate since the late 1980s (Amsden, 1989; World Bank, 1993). The former position attributes economic growth and success to the critical role of the state, while the latter ascribes it to the influence of the free market (see Cathie, 1998). Many economists have ascribed the economic success of East Asian countries to liberalization, or the freeing of markets from government control (see Amsden, 1989). With some explanations, Amsden (1989: 78) concludes the following:

> In all, liberalization amounted to nothing more than a footnote to the basic text of Korean expansion. To attribute the role of equilibrator in such expansion to the market mechanism rather than to the government's dual policy of discipline and support is to misrepresent a fundamental property of the most successful cases of late industrialization.

The World Bank (1993) also presents similar arguments. According to their report, proponents of the neoclassical view have argued that the

successful Asian economies had been more effective in providing a stable macroeconomic environment and a reliable legal framework, both of which promoted both domestic and international competition. In addition, it was possible for these countries to maintain relatively low price distortions due to the absence of price controls and other distortional policies. Adherents of the revisionist view, however, have refuted the neoclassical model by showing that industrial policy and interventions in markets were not fully compatible with it; rather, some policies were more relevant to a state-led development paradigm. The World Bank report also explains that while the neoclassical view rarely recognised cases of market failure, revisionists have contended that markets failed to provide useful guidance for investment by industry and that governments deliberately and strongly intervened to remedy this problem (Amsden, 1989).

The role of the government in the economic development process of East Asian newly industrializing countries (NICs) has been well characterized (Amsden, 1989; Hsiao, 1988; Wilkinson, 1994). The state in late industrializing countries 'can stimulate or stagnate the economy; it is a necessary, if not a sufficient, cause for development' (Lie, 1991, p.502). The economic success of East Asian countries has come under governments that are not democratic but rather authoritarian (Bae, 1997). In addition, this success has been realized by the 'visible hand' of a strong, authoritarian government and system, rather than by the 'invisible hand' of the free market. Given the underdeveloped nature of economic institutions (i.e., labour, product and financial markets) and the weakness of business enterprises, authoritarianism has often been successful in driving economic development and growth (Khanna and Palepu, 1997; Sharma, 1985).

So far we have discussed two sets of arguments (the external vs. internal and market vs. state views) around the main engine of industrialization and economic development in Korea. However, these two arguments are primarily macro-oriented. According to Porter (1990), national competitiveness largely stems from core industries' capacity to innovate and upgrade, which in turn ultimately comes from each individual firm's core competencies. Kim (1997) also suggests that, for firms in latecomer nations, three sources of technical learning are the international community, the domestic community and in-house efforts at firm level. Therefore, finely-tuned, firm level analysis is required in order to capture the whole picture of Korea's economic success (Kim, 1997).

By demonstrating the ways in which Korean firms have built up their capabilities, the nation's overall industrialization and economic growth can be explained. What were the strategies deployed by Korean firms in shifting from imitator to innovator and from OEM (original equipment manufacturer) producer to global player? One explanation focuses on the learning process. A

critical process for dynamic learning at firm level is 'absorptive capacity', which requires two critical elements (i.e., an existing knowledge base and intense effort) (Cohen and Levinthal, 1990; Kim, 1997). To expedite learning, visionary entrepreneurs have used crisis construction as a strategic tool in such industries as automobile and semiconductor manufacture (Kim, 1997). Beyond the strategic roles of entrepreneurs, however, expeditious learning is possible only when well-educated human resources continually show commitment and conscious efforts to develop.

In summary, so far we have discussed the main engine of industrialization and economic development in the light of three competing paradigms: external versus internal, state versus markets and macro versus micro perspectives. Firstly, we explained that external forces (e.g., the infusion of US economic aid, the roles of foreign firms such as Japanese electronics manufacturers and benevolent foreign markets) were important to the early period of industrialization. Then the Korean government took the initiative and brought about the story of 'government success'. Lastly, at the micro level, management took up similar roles. Although all these arguments provide some critical illustrative factors, on their own they are not enough to explaining the whole story of industrialization and economic development. Proponents of micro (i.e., firm level) analyses emphasize the critical role of entrepreneurs, but this still leaves one further critical factor – human resources and the labour force. Human resources have showed discretionary efforts towards expeditious learning and the upgrade of technological capabilities. Whilst a great many issues and ideologies have come and gone, human resources have continually developed as a result of a social culture in which education is regarded as important, parents make efforts for and take an interest in their children's education and governments and corporations invest in human capital. This book is about this aspect of the human resources and labour force in Korea.

General Model of ER/HRM Systems

In his pioneering book *Industrial Relations Systems*, Dunlop (1958) presents a model to frame a general theory of industrial relations systems (IRS). In this model, he proposes three groups of actors: managers and their representatives, workers and their organizations and government agencies concerned with industrial relations. He also identifies three critical contextual factors affecting the interactions of such actors, namely technology, the market or budgetary constraints and the power relations operating in society as a whole. An ideology (i.e., set of shared ideas and beliefs) is another critical component that helps integrate the system according to Dunlop's model, as