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# Transformation of Korean HRM based on Confucian Values

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## Abstract

This study aims to find out the role of the Confucian family value in the process of the transformation of Korean HRM and IR in a hyper-competition period. I analyzed the characteristics and the transformation of Korean companies' HRM as well as the core value system of Confucian familism. I suggest that a successful transformation of HRM in Korean companies requires an interplay between two factors. First is the genetic factor based on traditional Confucian culture of Korea (i.e., the DNA of Korean HRM), of which its advantages must be respected and preserved. Second factor is an adaptation ability, which modifies its own core competency and routine through an interaction with the environment.

Korean HRM stands at a turning point now. The Korean economy is facing a hyper-competition in the global market. To survive, Korean companies have to improve their competitiveness. Also they must solve the problem of seniority-based HRM of Confucian values that hinders their competitiveness.

To confront an inevitable transformation of the management system, Korean companies tried to solve the problem by bringing in a rapid growth process of North American HRM practices. But, unanticipated side effect has occurred in this process. As American HRM was uniformly adopted, traditional teamwork, organizational loyalty, and the advantages of traditional Korean companies were damaged. So many companies have shown a problem of decreased organizational effectiveness. In the case of employment relations, the rapid layoff and an increase of temporary workers via organizational restructuring have

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caused an increase of transaction cost of labor because of union resistance. These kinds of mistakes were caused by a culture clash between Korean corporate reality based on a Confucian tradition and American management policies.

But some companies, which have maintained traditional HRM characteristics, maximized the advantages of Confucian ideology and at the same time have adopted HRM policies based on performance in their own way. These companies succeeded in the transformation of HRM with less conflict with their labor union.

Therefore, we need to pay an attention to the genetic factors of Korean HRM practices in order to understand and achieve successful transformation of Korean HRM practices.

(Keywords: Confucian familism, transformation, Korean HRM, genetic factor, adaptation ability)

## **I. Introduction**

The Confucian culture of the East Asian countries is deeply rooted in Korea as well as China and Japan. Traditional Korean society, since the introduction of Confucian teachings from China at about 4 century AD, has always been family-centered and family-dominated. As Confucianism values much of a family, there are strong family-oriented characteristics in the corporate world of East Asian countries. This sociocultural infrastructure (Choi, 1976) prescribes the characteristics of human resource management (HRM) and Industrial Relations (IR) in Korea.

The ideology of the Confucian familism is a paternalism that forms the characteristics of the relationship among family members as hierarchical and vertical one. And the paternalistic authority relations regulates the family order. In relationships such as husband and wife, and in the case of father and children, subordination and control were essential bases of the relationship and not reciprocal as in many Western countries.

This study aims to find out the role of the Confucian family value in the process of the transformation of Korean HRM and IR in turbulent periods. Specifically, my goals in this study are threefold. First of all, I will summarize the core value system in Confucian familism which has affected Korean corporate community and specific HRM practices. Second, I will analyze the characteristics of corporate community and HRM based on

the Confucian family values. Third, I will provide arguments of Korean Confucian corporate community and HRM for the new trend and transformation of Korean HRM, so that I can finally examine how Korean HRM would be changed with the change of competitive corporate environment.

## **II. Confucian Family Values and Business**

### **1. Confucian Family Values**

#### 1) Confucian Background

Throughout the past 600 years, Confucianism was the official political ideology of the Chosun Dynasty, which ruled Korea from 1392 to 1910. Confucianism provided a useful ideology for maintaining a stable society. It spread out its roots within the society and soon became very powerful. It worked its way deep into the Koreans' minds, their ideas and customs. In the period of Chosun Dynasty, studying Confucianism was the only way to become a government official and to satisfy the desire for status ascending. So the knowledge of the classic teachings of Confucianism was not only the norms that regulated the social order and institutions but also the pragmatic means that guaranteed the success of one's family and the life of the establishment. Therefore, living with the Confucian principles was an unconditional necessity for every family. For Confucianism the elements of a "good" society were: charity, property, wisdom and deep respect. Those standard elements were not universally valid, but they were well applied to a particular frame of a fixed social relationship.

The base of practical moralities of Confucianism is so called "Sam Kang O Ryun", namely the three fundamental principles and the five moral disciplines in human relations. The three fundamental principles are the rules of conduct that must be followed between father and son, sovereign and subject, and husband and wife. The five moral disciplines principles—affection between father and son, loyalty between sovereign and subject, distinction between husband and wife, order between the young and the old, and faith between friends—must be maintained. All of them demonstrate the order of human relation

and a hierarchical order in a society based on family system. The basic virtue of Confucian family ideology is the “Hyo” concept, meaning “filial piety” showing admiration and obedience to one’s parents. In a parent-son relation, the son must obey the father with absoluteness. Even after his marriage, he must serve the father with his wife and must always put his father before his wife.

But it’s not an one-way relationship but a reciprocal one. The father has a bond to support and protect his son and the whole family. And the son must obey the father with absoluteness and the son has a duty to serve his father after his father’s retirement. Hence, the organizations in the society under the Confucian culture are ruled by the traditional authority relations, that is, the protection-loyalty relationship. It is the same relationship that exists between the employer and the employees in the company. To understand the characteristics of the Korean corporation systems properly, it is very important that all these rules are based on family system and its ideology (Redding, Norman, and Schlander, 1994; Dore, 1973). Hence, Confucian philosophy emphasizes primarily on following the social relations within a hierarchically organized society based on family ideology.

## 2) Paternalistic Family Ideology

Familism in the Confucian civilization area such as Korea, Japan and China has distinctive characteristics compared with Western community. As the fundamental unit of the society is the family rather than individuals in the premodern period of East Asian countries, we can still find strong collectivistic traditions even in these individualistic modern times. And those family-oriented community ideology in East Asian countries owed much from Confucianism that stressed the kinship of the family as a basic unit of society. As the family being the most important and basic entity of the traditional Korean society, it has to be analyzed more deeply in order to understand its characteristics.

The strong family tradition has economic aspects, as well. When a family member is thrown out of work, the family system absorbs its unemployed member until his or her getting a job. The economic expansion and contraction of the labor market

were balanced through the elasticity of the social structure in releasing workforce and absorbing the unemployed, its basic element being the extended family.

It is remarkable that the obligation for mutual help, especially for the elder parents, existed within the extended family and still continues to exist. There are too few convalescent homes in Korea. The elder parents are primarily to be cared for within the family. Even between relatives, there is an obligation for mutual material help. The more sons a family has, the better is the security for the aged parents and the more certain is the continued existence of the extended family.

## **2. Business as Family-Oriented Corporate Community**

### **1) Paternalistic Management**

As mentioned earlier, the family system was the basis of the traditional social values of Koreans. In the same way, the traditional family values and concepts serve as an ideological basis to determine the relationship between employer and employee. Management began to praise the advantages of the traditional family ideology and emphasized on being able to solve problems much better when relying on the family concept of goodwill and mutuality instead of depending on worker legislation and labor movement. It stressed on building the relationship between employers and employees in the factories after the model of the relationship between parents and children in the traditional family system.

The traditional family ideology served as a constitutional principle for the organization so that the workers identified themselves with corporate and remained loyal (Choi, 1974). Such a family-oriented corporate community was regulated by the paternalistic authority relations. Corporate was seen as a big family in which management played the role of the benevolent "father" whereas the employees accepted their obsequious role as "children".

Thus managements developed human resource methods according to the principles of the family ideology. The lasting relation with the company, difference of status based on the length of employment at the company, and the interest of the company in personal affairs of the employees are based on the

concept of the unique Korean family tradition and is praised as particular advantages of the Korean corporate system.

## 2) Family-Oriented Corporate Community

The family-centered ideology of Confucianism has made Korean corporate community. So called corporate familism made many Korean companies to be managed like community. The successful Korean companies have established and maintained the family-based ideologies and rules, and have cared their employees as their family members.

Employees respected managers much as they would respect their own fathers. Reciprocally, managers considered their employees like family members, trying to take care of employees as much as possible.

Corporate community ideology did not indicate their relationship with employees just as an employment contract but considered the relationship with employees as a corporate community that could not be artificially cut off. Therefore, the companies did their best to make themselves like a family. To materialize this the companies provided many activities. The employees also expected a corporate community at work and they liked it when the top manager provided such an atmosphere. Consequently, employees usually did not change their jobs even if the company fell on hard times. They stayed with the company so that it could recover, and get back on their feet.

To obtain the feeling of the corporate community, each company had its own corporate strategy. Here are several examples of common strategies that companies adopted. First, the company provided a sense of solidarity among employees at work so that they felt like members of family. Second, the company tried to form firm consciousness to build trust and understanding between employees and the company. Third, the company attended to individual celebrations. Fourth, the company had social relationships with employees besides just the working relationships. These company policies helped create an atmosphere that brought labor and management into a corporate community.

### **III. The Characteristics of Traditional HRM Practice of Korea**

Three characteristics of HRM practices have been found as the basis of Korean companies as a corporate community. These are the structural attribute of HRM practices—vertical interaction based on harmony ideology with paternalistic leadership— and the two functional practices—long-term employment and rigidity in layoff, seniority-based wage and promotion.

#### **1. Vertical Interaction Based on Harmony**

In order to keep a collective subordinate relationship in traditional Korean society, a concept of harmony was heavily emphasized. In Confucianism, harmony was also considered an important ideology to control the members of the group. To keep a subordinate relationship within the group, the leader emphasized harmony and tried his best to keep it within the group.

The East and the West have different values in their social and cultural orientations. The oriental human relationship is a reciprocal action of family-oriented authority and warm vertical relations based on a balance of the positive and the negative forces that ground from Confucian social principles. Therefore, the concept of “oriental harmony” always lies in its base.

The Eastern human relationship (of Korea, China, Japan) sets a conflict-free condition as its premise. The regulation and the structure of the organization not only discourage conflicts, but endow it with a negative meaning. Counter-offer, negotiation and compromise, the products of conflict, are considered a betrayal to values such as harmony, unity, principles, and purity.

More specifically, there is a big difference between the horizontally reciprocal style based on conflict of the West and the vertically reciprocal style based on harmony of the East. Then what is the horizontal reciprocal style of the West which sets conflict as its premise and which is based on individualism? To understand the formation of such a society, we have to understand what “conflict” is.

Conflict, in general, has both destructive and constructive

aspect. It has an aspect that destructs the existing order and at the same time, a constructive aspect of solving problems in a new dimension.

The Western society, which is based upon individualism and conflict, has the ability to understand conflict and to pull it up to a creative dimension. Therefore, in the Western society, conflict is good, and negotiation and compromise for the conflict, are considered as necessity. They believe that they might reach a new dimension through conflict and that there is development where there is conflict. They hope for conflict because conflict can become the force behind development. If conflict doesn't surface and becomes latent, the society will not escape stagnation, and when conflict accumulates, it will change into a riot that threatens the social peace.

Then, what is the vertically reciprocal action based on harmony and collectivism of the Orient? The representative model of the oriental society, which is based on harmony, can be found in a vertical relationship. The juniors are expected to respect their seniors with the concept of filial duty and devotion. In response, the seniors must take care and look after the juniors with benevolence and sacrifice. The Eastern call such an action of not being analytical but acting in holistic harmony according to the concept of "harmony."

## **2. Long-Term Employment and Rigidity in Layoff**

It is a well-known fact that the Korean companies had much residual human powers in the companies before 1997 foreign exchange crises. That was caused by non-activated external labor market. This is not only representation of Korean labor market which must supply human resource inside the company, but also practice of Korean employment.

Traditionally, Korean companies have maintained internal labor market policy to recruit graduates from a distinguished universities, namely 'open recruitment', and train them to be warriors. Samsung Corporation, Korean representative company that is Samsung's subsidiary, recruited graduates openly since 1954 (Samsung, 1988). It was from 1961 for Hyundai Group's "open recruitment" to be a formal HRM practice (Hyundai is the rival chaebol of Samsung). This kind of internal labor market



policy is a critical characteristic of East Asian countries which make use of catch-up policies. These countries loaned much money, skills from developed countries and constructed factories to become a developed country. As they didn't have skilled workers and crafts who formed basis on development of traditional handicraft manufacturing and medium and small-sized enterprises, they needed to hire unskilled labors like peasants and train themselves to be adjust in organizational factory life. This learning course for forming skill and labor's adjustment need to be invested on human resources for companies.

Doeringer and Piore (1971) insisted that forming specific skill in the company was a critical factor for building internal labor market. Operating 'public recruitment' and job-training center in Korea and Japan are results of regarding internal labor market as an important matter. It also shows that Korea and Japan's companies prefer to long-term employment policy to layoffs.

There are intimate relations between the tradition of internal labor market polices and traditional familism of Confucianism. In the paternalist authority relations of Confucianism, the retention is the most important behavior which makes employers to build the trust from employees. So the East Asian countries like Japan and Korea have not only some rigid legal standards on the layoff but also the very critical public opinions on the layoff. The National Labor Relations Act of Korea is one of the factors that make rigid layoff practice (Choi, 1996a).

In Korea, layoffs had been prohibited by law until 1997 when the Labor Standards Law was changed and only the Court of Justice had suggested a few rigid conditions. On 1997, when the National Labor Relations Act was passed, the judicial precedents about layoff were changed into laws, and it made employers to have less burden on layoff. In spite of this, in comparison with USA and Europe, this standard still requires the rigid legal formalities.

So far, one of the reasons of the rigidity in Korean companies' layoff practice came from the cause that prohibited the layoff without the right cause. But the revised cause provided less rigid condition for the layoffs that the managements can execute layoff under the condition of the authorized economic and technical causes (continuing deterioration in financial

**Table 1. Comparison of Employment Practices**

Exit \ Layoff	Difficult	Easy
Easy	II: Korea, Germany	I: U.S.A
Difficult	III: Japan	IV: Russia, China

Source: Choi (1996b)

performance, restructuring and technical innovation or change of business domains).

In comparing Korean employment practices with the other countries, exit (turnover) of employees and layoff need to be examined as key factors of employment practices in regard to labor supply and demand. Korean employment practice can be analyzed as type II with easy exit and difficult layoff as seen in Table 1 (Choi, 1996b). Employment practices of Korea and Japan are long-term employment with difficulty in making layoffs. But Japan's exit practice is different from Korea's in a sense that Japan's social inhospitality toward the turnover prevents employees from leaving a firm.

People say in Korea, just like that of Japan, that a frequent change of occupation is caused by lack of adaptation. Except from the scout for special labor demand, the case that moves from a big company to another is rare in both countries. Considering the level of communal society between Korea and Japan, it's easy to anticipate the difference. But the real reason that brings a gap may be more of an economic problem. This comes from different levels of industrial development. Korea has fewer companies that have stable and good condition to work than Japan does. This proves that for Koreans, changing occupation occurs in rather small company with a poor condition.

Table 1 shows that characteristics of Korean employment relations are not so negative about employees' turnover culturally, but the restrictions on lay-offs are strong institutionally. Even though traditional practice is a factor for delaying organizational transformation and change, it is a factor for developing external labor market because of low social criticism and hostility of labor's turnover. So Korean human resource management officers must develop appropriate

methods and understand characteristics of employment policy for innovation of human resource management in the process of globalization.

### **3. Seniority-Based Rewards**

Seniority-based wage (Choi, 1993) and promotion is also one of the characteristics of Korean employment practices that has contributed to a long-term employment and a rigid labor market. The underdeveloped competitive internal labor market has become an obstacle itself to the creation of a flexible external labor market (Choi, 1996b).

Usually, seniority-based system is known as one of the characteristics of Japanese management. In Japan, seniority-based system that is also called as 'electrical machinery industry style wage system' formed its feature about 1949. The core of electrical machinery industry style wage system is the continuous increasing base pay, which enables employees to lead their life in spite of increasing cost of living caused by their own marriage, birth of their children, their children's marriage and so on. We call this system the life-time wage system.

Such limited Korean public organizations as Korean public banks and Korean Electronic Power Corporation applied life-time wage system to those who are under high-school only after 1970s when Korea set up Heavy chemical industry infra. In the case of private organizations, it was the first case that some heavy chemical factories applied it to male employees who had high school degree. For them, not only life-time wage system was offered but also dormitories, housing, restaurant and training programs for skill. Between late 1970s and early 1980s heavy chemical industry came to function well in Korean, when life-time wage system became prevalent in Korea. A representative corporation of Korean heavy chemical industry, HHI (Hyundai Heavy Industries Co.) took regular employment system as HRM system and bureaucracy as organizational form in 1979. Adding to them it also took seniority-based system as HRM practice. But it offered to high school graduate blue-collar minimum fringe benefit that can maintain cost of life and morale and there were obvious discrimination between blue collar and white collar in terms of promotion, income and benefit.

In case of bonus plan HHI offered it to each part in spite of the difference of bonus size. HHI offered fringe benefit more intensively to white collar, while it offered blue collar more intensively the benefit that have more direct relation with cost of life, such as housing loan and educational expenses for their children. Namely, fringe benefit was restricted only to white collar. With these facts we can conclude the status as family community was allowed only to white collar, namely that there was definitely discrimination between white collar and blue collar. This discrimination between white collar and blue collar was something like discrimination between “sawon” and “gongwon” of 1950s in Japan. In Korea this kind of discrimination became the most important issue of 1987 nationwide labor dispute, which was the core cause of conflict between labor and management.

A previous study shows that the internal labor market's development processes of shipyard business, one of the Korean representative industries, consist of three stages(Noh, 2002). The first stage of Korean internal labor market was in the pre-1987 period. The year 1987 was the time of labor and management upheaval. Until that time, labor movement was suppressed under the dictatorship of development for economic development and a large scale of skilled-workers were needed according to the heavy and chemical industry advance. As a result, the minimum internal labor market policies were driven by company's needs. The major policies include that active skill building by education in internal job training course and operating the collective residence facilities or the restaurant in factories for long-time works. Also it was included that the fringe benefits to motivate employees. The second stage was the result from the transformation of HRM occurred by labor movement's vitality, institutionalization and power relation changes. In this period, the major requirement of union was concentrated on industrial democratization, labor position and life improvement. The former need was related with union quotation, respecting worker's privacy, eliminating discriminations. The latter was requirements for wage increase and demolishment the discrimination between officers and production workers. The important argument about this discrimination is a single serial step and promotion guarantee. The serial step is the major

business practice policy supported long service pay system. The third stage has been initiated by the managements in the name of “management innovation” since 1990’s. It is urged by worsening environment of competition and open doors pressure of globalization and is in process now.

In Korea, long-term service system was generated after 1987 because of labor movement vitalization. During labor struggle in 1987, the organizational reinforcement and the institutional stability were attained by democratic union. This strong union prohibits employer’s will to layoff and provides the long-term employment system. Also internal labor market was improved by this union according to agreement of single serial step. Because the improvement of employee position was accomplished, improvement for productivity increase was not achieved.

#### **IV. Transformation of Korean HRM**

##### **1. Globalization and the Asian Financial Crisis**

To overcome the currency crisis of foreign exchange and financial crisis in late 1997, with the IMF relief loan support, positive structural arbitration by IMF program was implemented in this period. This period was a critical moment for the new step forward.

Korean economy, at the year of 1995, was changing from high-rate growth to stabilized growth. This implies Korea was taking steps for the new advance and facing the challenges in globalization, market opening, the extreme competition chased by advanced countries and China.

Globalization pressure was accelerated through Plaza Agreement in 1985, UR in 1986, GATT system and launch of WTO, therefore Korean companies were forced to find out its survival route through Business Administration Reform.

Korea’s conglomerates are pursuing business administration reform strategy for the improvement of productivities through such as inducing of new personnel system, structural reform in organization and human resource, and reengineering. A sudden impact of globalization trend in the Korean economy came as the bilateral agreement such as UR as a result of the collapse of

East Europe and Soviet Union and New GATT System.

This pressure is applied to all international trade industry and reinforced according to the enlargement of international regionalism such as EU, NAFTA and selective protected trade organization. Korean companies are taking a reform in HRM to the customary protection and practical affairs in addition to structural reform and technology innovation to go through the competition and market opening pressure entailed by globalization.

Therefore, many of companies launch to induce HRM system, which is flexible to market situation and American practices, which is endowing a salary and position by the individual capacity and contribution. In terms of "employment" and "compensation" in HRM, Korean companies had shifted their seniority model to outcome model in 1990'. The practices of American HRM are the global standards, what Koreans call. The transformation of HRM is occurring widespread inducing the incentive system such as a yearly stipend, profit and gain sharing, stock option and breaking a traditional permanent employment through hiring temporary workers, recruiting employees with qualified backgrounds and experiences, and aggressive promotion.

In the face of globalization challenge, the notable response that Korean government had taken was a public discourse in 1995 and revision of labor law in March of 1997. After president Young-Sam Kim published "New Industrial Relations Ideas" in April of 1996, the Industrial Relations Reform Committee was established. At that time president Young-Sam Kim proposed several issues for industrial relations reform such as principle of maximization of labor-management's co-goodness, principle of participation and cooperation, principle of autonomy and responsibility, principle of education and human orientation, principle of globalization of institution and consciousness.

The orientation of revised Labor Law was summarized in two trends. First was the abolishment of unequal clauses that had restricted collective industrial relations correspondent to social democratization. Second was revision of Labor Law for increasing employment flexibility and supporting for industrial democratization to prepare for globalization. As a result, several detrimental clauses of Labor Law were eliminated such as

prohibition of the plural number union, prohibition of the third party intervention, prohibition of union's political behavior. And to increase employment flexibility, new clauses on layoff and flexible work time was enacted.

The Labor Law is revised through consensus of tripartite (Labor-Management-Government) and government party and nongovernment party in Congress. So the procedural legitimacy is acquired. And the contents in revised Labor Law are evaluated as the second best in that point guarantee labor basic rights, endowing social responsibility with labor activities and increasing labor flexibility prepared for globalization.

## **2. New Trends**

### **1) Increasing Flexibility in Employment**

Since the foreign exchange crisis, Korean companies have experienced broad and fundamental transformation resulted from globalization (Kim and Briscoe, 1997). First of all, the traditional employment practice that characterized long-term employment and high organizational commitment is disturbed. The large Korean companies hire college graduates twice a year through interviews, reference checks, and a test of knowledge in management, English and common sense. Recently, some chaebols (conglomerates) dropped "the knowledge test" or replaced it with an aptitude test (Samsung, Hyundai), but many companies still use the knowledge test as a screening tool (Kim and Briscoe, 1997; Kim, 1997). New employees go through four weeks' in-house training in Samsung, staying at the firm's training center. There are big differences in other large companies. Korean companies put a strong emphasis on employee training and most have their own training centers. The purpose of the significant length of training is to transform naive college graduates into "warrior workers" loyal to the organization (Kearney, 1991). The atmosphere of training is heavily influenced by the military culture.

Trainees learn the history, organization, and vision of the company and also learn the company song. Technical training and general management education are also provided, but less emphasis is placed on this type of training during this period. After the trainees begin their work at assigned firms, they

receive extensive technical and management training. The large companies place emphasis on ongoing employee development and provide a variety of training programs (Steers, Shin, and Ungson, 1989).

However, these days, not only recruiting the entry level workers but also hiring the experienced worker proportions increased. This is related with reducing the workforce policy. In high-rate growth period before, securing surplus workforces are considered flexibilities demand in enterprises. One of the policies of HRM in low-rate growth period is rather to allocate the experienced workers in necessary position to training surplus workforces.

And in IMF supervision, enterprises, through the big structural reform, dismissed over-employed human resources. During this period, the financial institution dismissed the employees in various methods about 40per cent, and voluntary turnover in chaebol is appeared for the first time. In the past, employees' voluntary turnover in chaebol was almost 0per cent. In fact Korean companies had achieved rapid growth through retaining and educating slack employees for new business, so they are considered key resource to response with new opportunities. This is the reason that exercises large public recruitment system.

But in turning point in 1995, Korean economy confronted the trend of low growth, and slack employees for new business became target of layoff. That is, large public recruiting and education system is effective in management environment of low labor cost and high growth rate, but that system is not more effective in high labor cost and low growth rate because of the pressure of high cost. So the recruiting practice, which emphasized on new graduates, changed to adapt recruiting on demand, recruiting experienced workforce, scouting and open recruiting CEO. The use of contingent work is increasing. This means family oriented community focused on full workers is changing too. In fact the use of contingent workers has been constrained at any low rate because of full workers's morale decline, anxiety to security, cultural conflict between the two groups. But the rate of contingent workers had increased during the revision of Labor Law in 1997 and IMF bail-out period (Table 2).



**Table 2. Trend of Contingent Workers Ratio**

	1988	1992	1996	1997	1998	1999	2000.8
ratio(%)	44.3	43.1	43.3	46.1	47.2	51.7	58.4

Source: Korea National Statistical Office (2001).

Note) contingent workers = temporary workers (contract term under one year) + daily workers (contract term under one month)

In employment perspective, recruiting full time workers is replaced by recruiting contingent workers. And as layoff clauses in Labor Law is legislated in 1997, Korean companies begin to exercise layoff that has been strictly constrained ever before. With these situations, traditional practice disliking turnover is collapsed. And as workforce flexibility increased, long-term employment in entering firm is replaced by long-term job based on employability.

Also employee perceived the significance of life-time employability than life time employment, and movement of workforces is enlarged to for higher pay, better work contingents, and career development.

## 2) Diffusion of Performance-Based Pay (Compensation)

Traditionally, employee compensation has been determined mostly by seniority. Recently, according to a comprehensive HR survey, performance has emerged as an important factor as firms try to increase productivity by rewarding performance.

The new trend in compensation is the enlargement of performance-based pay. In the old system, the compensation package (not including benefits) had three components: basic salary (50 per cent of the total), allowances (10 per cent) and bonus (40 per cent). The level of basic salary and allowances depended mainly on the position and seniority, and the bonus relied on the performance of the firm. The bonus has been frequently compared to profit sharing in western enterprises. They are similar in that both are group incentives—that is, everyone receives them—and both depend on the performance of the firm. Yet a big difference is that large companies pay bonuses four to six times a year (bi-annually in most Japanese firms), each time in the amount of several months' basic salary.

If the performance of the firm in any given year is better than the average year, then employees receive more bonus payments. However, due to the free rider problem and ineffective performance appraisal system, it is questionable whether the bonus provides any noticeable incentives for the employees. Because of the ineffectiveness of bonuses and the lack of individual incentives in the old compensation system, Samsung determined that its existing system did not encourage individuals to perform at a high level.

Thus the new HR policy introduced a heavy dose of individual incentives into the basic salary. The new system divided the basic salary into two components: base pay and performance pay. The base pay depends on position and seniority, but the performance pay depends on individuals' performance ratings. The proportion of performance pay in the basic salary is 68 per cent for the managers, 64 per cent for senior associates and 42 per cent for junior associates. As the numbers indicate, the variable portion is greater among employees in higher ranks. Determination of allowances and bonuses are the same as before. Thus the characteristics of the new compensation scheme are the introduction of individual incentives and the higher variability of pay among employees in higher ranks.

First of all, the dramatic change in Korean HR practices is the trend of adaptation of annual salary system. In generally American global standard, what is called, refers to annual salary system. That is the representative system of performance-based HRM. Since IMF crisis, Korean companies intensively introduced annual salary system. As we identify Table 3, the annual salary system has increased dramatically from 1.6 per cent in 1996 to 32.3 per cent in 2002.

**Table 3. Trend of Adaptation of Annual Salary System**

	1996	1997	1999	2000	2001	2002
Adapting firm(ratio)	94 (1.6)	205 (3.6)	649 (15.1)	932 (23.0)	1,275 (27.1)	1,612 (32.3)
Sample Size	5,830	5,754	4,303	4,052	4,698	4,998

Source: Ministry of Labor (2002).

**Table 4. Trend of Adaptation of Flexible Bonus System**

	1996	1997	1999	2000	2001	2002
Adapting firm(ratio)	334 (5.7)	405 (7)	689 (16)	833 (20.6)	1,025 (21.8)	1,172 (23.4)
Sample Size	5,830	5,754	4,303	4,052	4,698	4,998

Source: Ministry of Labor (2002).

With annual salary, another performance-based pay is flexible bonus system. Already Korean companies have exercised the bonus system based on seniority rather than performance. That traditional bonus system is fixed pay, not variable one. But recent bonus system is changing to performance-based system such as special bonus, profit sharing, gaining sharing, stock distribution based on performance. Especially many companies hire very competent CEO from outside, endowing them stock option, and it is noticed by mass media. As showed Table 5, the trend of flexible bonus system has more increased from 5.7 per cent in 1996 to 23.4 per cent in 2002.

The rapid proliferation of annual salary and incentive system is appropriate evidences that transformed from seniority-based compensation to performance-based one in Korean HRM practices. This is the result of compound interplays between effects of globalization, IMF crisis in Korea, and the succession of CEO in Korean companies (Tushman and Romanelli, 1985; Romanelli and Tushman, 1994).

### 3) Reform in Evaluation

In the old system, not much attention was paid to performance appraisal because performance ratings did not affect promotion and compensation decisions in a meaningful way. Promotion was based on seniority and there were no individual incentives in the compensation system. This caused management as well as employees to take performance appraisals as an annual—but irrelevant—formality.

Under the new HR policy, however, promotion and compensation came to depend heavily on performance ratings. To make the appraisal system fair and trustworthy, substantial

changes were made (Kim and Briscoe, 1997).

First, supervisors are required to keep a diary (“Manager’s Note”) on the performance, grievances, and improvement needs of employees. This is to help raters to consider employees’ activities and performance over the entire evaluation period. Also supervisors are encouraged to share the diary with the employees to communicate expectations, provide timely feedback, and increase the credibility of the performance appraisal.

Second, a 360-degree evaluation was introduced. Evaluators now include supervisors, subordinates, customers, and suppliers. The multi-rater evaluation was implemented first for the manager group and will be expanded to the senior group.

Third, a mandatory appraisal interview was introduced. During the annual “Appraisal Week” two rounds of evaluations and interviews are carried out. In the first round, the performance evaluation is done through an interview with the supervisor. In the second round, a capability evaluation is performed through another interview with the supervisor. Through the interviews, employees and supervisors exchange and discuss evaluations, and adjust differences in their opinions. Then they agree on the final ratings and sign the document.

### 3. Globalization and Tradition

However, we do not neglect the fact that a lot of companies have maintained a traditional HRM practice in spite of the introducing an American management style. It is arbitrary that not following the trend is regarded as selection not adjusting to a new environment. The issue is the one of common controversies in the academic and practical circles that Korean companies

**Table 5. All Types of Annual Salary Plan**

Transformed merit pay (mixed type)	American merit pay	Seniority
60.7%	13.6%	19.7%

Source: Ministry of Labor (2002).

have to accept a global standard, American management style or keep their own ways like Japanese companies. According to the chart issued by the Korean Ministry of Labor in 2002, the Korean annual pay system is transformed merit pay mixing American merit pay and seniority. On the other hand, American merit pay type occupies little portion.

We do not decide that transformed merit pay system is a creative form reflecting Korean companies' situation or unfitness to a new institution as conservative attitude. But a definite thing is that American merit pay system is not better than transformational merit pay. Moreover, these transformations in the Korean top companies have happened positively. We can find the cultural differences between Western and Eastern "lay-off". Namely, Korean companies prefer to do an early retirement paying considerable incentives rather than do a daring lay-off in U.S. Through the early retirement programs, Korean firms targeted senior employees and forced them to take early retirement (Choi and Kim, 1997). These efforts are made by legal containments to lay-off as well as cultural characteristics considering company community collectivism and employees' spirit, loyalty. Actually, because some Korean companies accepted the American HRM practices as a global standard based on a performance without deep consideration, they are faced with a deep conflict in organization, increase of transfer rate, weakness of loyalty and spirit. For instance, the practices excessively based on excessive performance in compensation such as increase of individual grading, only monetary compensation, appraisals focusing on a short term, only appraisals for visible financial performance damaged organizational teamwork and productivity. And large lay-off and employment of irregular workers in employment management made a embarrassing transaction cost and labor disputes.

On the other hands, these phenomena are regarded as temporary resistance of traditional Korean values (Confucian collectivism) against short-term widespread American merit pay. Because culture cannot be changed easily, the processes of American merit pay applied to Korea are made by harmony of traditional Korean culture for high performance. In fact, there are a lot of cases that the companies mixing seniority and performance-based HRM carry out low labor disputes and HRM

system innovation. Among Korean famous chaebols, these companies keeping good relationship to employees achieved successively performance HRM for competitive power and modified steadily. That is, traditional Confucian familism values contributed not to resistance of new transformation but to success through employees' family, partner cooperation for innovation, and decreased transaction cost accompanied by transformation. In a word, the companies mixing inherited advantages of corporate community values based on Confucianism and performance-based HRM to globalization environment stand out as competitive power one without severe labor disputes.

## **V. Conclusion**

Korean HRM stands at a turning point now. The Korean economy is facing hyper-competition in the global market. To survive, companies have to improve their competitiveness. Also, they must solve the problem of seniority-based HRM that hinders their competitiveness. So while considering American style performance-based HRM, Korean companies have to search for the Korean HRM based on their own situations.

In fact, the main point of Korean companies' HRM point is mixing traditional cultural characters and new environmental change of globalization. Korean companies have improved rapidly through government's economic development plan since 1970. This growth is based not only on progressive entrepreneurship but also on the Korean HRM of Confucian familism that made efficient human resource management possible. However, because Korean companies did not change seniority-based management style responding to new environment, they fell into competency traps.

Korean companies had grown rapidly through seniority-based HRM practices activating Confucian familism. But it became an obstruction under changed environment-globalization. So Korean companies have to introduce incentive system for employment flexibility and individual creativity to respond to more competitive environment-globalization. Many companies started introducing so called "New HRM" in the early stage of

1990's. It includes assessment system, compensation based on performance, incentive system, slimmed team, recruiting, promotion system irrespective of the academic background (Park, 2001). Introducing American-style HRM practices as a global standard without considerations in advance, Korean companies faced the foreign currency crisis in 1997, because of an objection of activated labor union since 1987 and easygoing attitude of management in 1980.

There are big differences between a effort for changing HRM in foreign exchange crisis and that in the early stage of 1990's. Corporate attempts to adapt to the environmental changes were intentional efforts in early 1990s, but IMF relief financing program and follow-up measures were forced upon Korean companies in foreign exchange crisis. During IMF management period, American policies were introduced as a global standard. For instance the early retirement, big lay-off, merit pay system, stock option and so on were operating. In this period, corporate intention to renovation was strong. And the public opinion's supports and the social consensus toward change minimize labor union and employee resistance to innovation. As a result,

**Table 6. Past and Future of Korean HRM**

	Characteristics in the past	Characteristics in the transformation
Employment	Open employment for new employee Focusing on full-time workers Long-term employment	Extending occasional employment focusing on the experienced Lay-off Frequent use of contingent workers
Reward	Reward based on seniority	Extend reward based on performance and ability (group incentive)
Promotion	Promotion by a salary and job class	Extend promotion by performance and ability
Evaluation	Evaluation based on internal competition for promotion and reward	Extend evaluation based on market competition for achieving corporate goal

HRM system is transforming just like Table 6.

Confronting inevitable transformation of the management system, Korean companies tried to solve the problems brought in a rapid growth process with American HRM practice. But unanticipated side effect has occurred in this process. For example, there were the increase of individual discrepancy in reward management, focusing on monetary rewards and incentive, thought quantitative financial performance, and evaluation focusing on short-term performance.

As American HRM was uniformly adapted, traditional teamwork and organizational loyalty, the advantages of traditional Korean companies, were damaged. So many companies represented low organizational effectiveness. In employment relations, the rapid layoff and extent temporary workers according to restructuring occurred too heavy transaction cost of labor because of union resistance. These kinds of mistakes were caused by cultural conflicts between Korean corporate reality institutionalized by Confucian traditional and American management policies. Though the transformation of HRM was necessary, strong conflicts occurred in the process. As a result, settlement of American policies was delayed.

But some companies that maintained traditional HRM characteristics maximized the advantage of Confucian ideology and also adapted HRM policies based on performance by their own way. These companies succeeded the transformation of HRM with less conflict with their labor union. Many evolution theorists declared that organization must not only reproduce core competency such as production and organizing capability and routines but also modify them through interacting environment for survival of continuous evolution (Nelson and Winter, 1982; Baum and Singh, 1994).

According to the characters of successful HRM transformation, we can find distinctions in that companies facilitate structural flexibility of downsizing and outsourcing through not individual merit pay but workgroup-unit merit pay in compensation and spin-off. Also they consider consistent loyalty and spirit through positive efforts averting lay off such as job rotation, early retirement, controlling newcomer, education-training program, and temporary retirement system. These successful cases of



HRM transit suggest possibility of Korean HRM that means a mixture by advantage of traditional Confucian familism HRM and performance-based HRM practices. But above all, the strategic choice of management is important through overcoming pressure of isomorphism and making Korean HRM. Inherent characters of HRM in societies are inherited.

Therefore, we have to search for inherited HRM's gene of Korean companies deeply. For that, we need to analyze the transformation of Korean companies' HRM practices interacting external environmental change historically. Especially, we need to pay attention to creative HRM practices under critical phases. Because company practices and HRM reflect genetic factors, we can find dominant genetic factors of Korean HRM for Korean companies advance in these practices.

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