

Human Resource Management in Korean Firms and its Future Outlook

Yoo Keun Shin

College of Business Administration

Seoul National University

Abstract

Human resource is firm's foremost intangible asset and is also what makes up firm's core competence, providing the key to solving organizational problems and increasing firm performance. Korean firms in the past have competed on low-cost strategy and paid less attention to proper management of their employees. This paper examines how Korean firms have dealt with each of the main functions of HRM from 1960s up to the present. It, then, proposes a hybrid approach to management that combines both the unique Korean cultural factors with Western style of management to allow firms to better handle demands of their culture and pressures of competing globally.

1. Purpose of the Study

From the 1960s to the mid 1990s, Korea's economy, with the help of government and business, was marked by extraordinary growth as some called it the "Asian Economic Miracle." However, as it became painfully evident during the economic crisis that hit the nation and region in the latter part of 1997, problems caused by the growth that focused too much on the external aspects finally surfaced and virtually brought down the national economy, now in its worst state since the Korean War, 1951-1953.

We need to examine causes of the economic crisis, and from a

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long-term perspective, how to get out of the current state and resume growing again. Among the many potential solutions that have been proposed, this paper focuses specifically on Human Resource Management (HRM) practices since it is the main factor of the corporate competency that can determine the national competitiveness.

Human resource (HR) is firm's foremost intangible asset that makes up the firm's core competence, and is crucial in solving organizational problems and increasing firm performance. It has long been known in the study of business management that firm's human resources are the ultimate source of firm's competitiveness, (Pfeffer, 1994) and the critical factor that will determine firm survival in the coming twenty-first century (Naisbitt, 1992; Toffler, 1980, 1990). In addition, corporate leaders and academicians both agree that the prerequisite to successful change of management systems is skillful management of people during the process (Shin et al., 1995).

However, if one examines whether Korean firms have actually taken this approach to management, the answer is negative. Korean firms in the past have competed mainly on low-cost strategy and did not concern themselves with training and development of their employees. Even though researchers recently have re-emphasized the need for firms to properly utilize their highly paid HR as the base of competition, Korean firms have not heeded. Rather, they see HR as the first area to attack when restructuring or downsizing and continue to neglect training and development. Rather than actively manage their HR, they have forsaken it in pursuit of "rational management practice."

There are cases where Korean firms have attempted adopting popular "best" management techniques used by western companies such as reengineering, restructuring, downsizing, and benchmarking, but the results have been hardly favorable. Either most of them failed during the implementation process or only succeeded in bringing about cosmetic changes to the system (Chung, 1995). They could not overcome many barriers such as employees' resistance to change, misunderstandings and uncooperativeness that arose, difficult organizational climate, and other internal problems. However, the main cause of failed implementation lay in the people. Furthermore, increased

diversity in labor market and changing consumer demand, added to the already unstable, dynamic business environment, have made efficient utilization of HR even more difficult, and also maintaining it through training and development (Schuler, 1992).

In order for the Korean firms to survive the present economic times they must reform the management system. Before preceding to devise a plan to meet the challenge, current and past structures of Korean HRM system need to be examined to understand the progress. Without a thorough examination of the past, it is difficult to foretell the future. Determining what management system or technique is most efficacious in strengthening firm competitiveness as well as providing directions towards which Korean firms need go for better HRM are presented in this paper.

2. Framework and Method of the Study

2.1 Conceptual Framework

This paper aims to predict changing patterns of HRM in Korean firms and find future direction of development of HRM. However, because it is difficult to analyze future patterns and direction using the entire HRM as a level of analysis, it would be more appropriate to study it at a lower level of analysis. We have decided to use main HR functions and process of modern HRM as the framework of the study. In this paper, we will look at dominant characteristics of HRM by function for each time period and then analyze patterns of changes and predict general direction of future development of HRM.

The reason for using functions of HRM process as the conceptual framework is that this method of categorizing gives traditional Personnel Management (PM) a common basis with modern human resource management. By studying the period from 1960 to the present, we can analyze changing patterns or trends of HRM. The analysis will show that HRM practiced by Korean firms are indeed moving from traditional personnel management to modern HRM.

Generally, the main components of modern HRM are classified

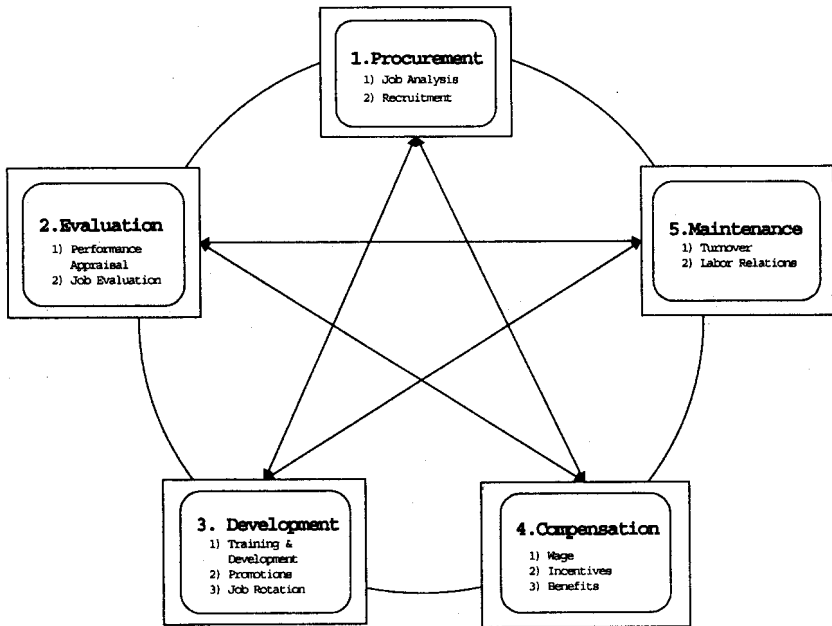


Figure 1. The Functions and Procedures of HRM

as procurement, development, compensation, integration, maintenance, and separation (Flippo, 1980). Taking into consideration the importance of employee evaluation and realities of HRM in Korean firms, Figure 1 illustrates integration of the different components of the HRM system.

Each of the functions of HRM is further divided into different components. The five functions listed above have been adapted, and are slightly different from the conventional version of functions of HRM. Under procurement, there are job analysis and recruitment. Under evaluation, there are performance appraisal and job evaluation. Under development, there are training and development, promotions, and job rotation. Under compensation, there are wage, incentives, and benefits. Finally, under maintenance, there are turnover and labor relations.¹⁾

2.2 Method of Research

This paper examines Korean HRM from 1960s up to the

1) Job analysis, employee evaluation, job evaluation, and etc. can be re-classified depending on the needs of the researcher.

present, makes an assessment, and determines which direction firms need to go in the future. We have divided the time frame into different periods and given a name to characterize each period. We decided to call period from 1960s to 1970s the "Challenge" to denote the great economic leap; for the 1980s the "Revival" period to denote restoration to a normal economic state of growth and prosperity; and, from 1990 to the present the "Transition" period (Shin, 1983).

With introduction of the first five-year economic plan, 1960s and 1970s were marked by rapid growth both in the business sector and in the national economy. The annual Gross National Product (GNP) grew 40% during this time. Continuous hiring pool increased annually by average of 76% (Korea Statistics Association, 1991). During this time, although large conglomerates expanded rapidly, the need to systematically manage their human resources was not yet recognized.

In 1980s, the economy was still experiencing positive continuous growth rate though not as fast as before. The annual GNP was still 12%, and the continuous hiring pool increased to average of 83% (KSA, 1991). However, in the second half of 1980s, the country experienced political turmoil in addition to major labor unrest, which forced corporate management to recognize problems with existing HRM practice and the need to reform its system.

The 1990s have been marked by prosperity and crisis, thus named "Transition." The growth of the national economy and business sector plateaued at the beginning of this decade. With the "IMF crisis" in the latter half of 1997, the country experienced a negative growth rate for the first time since the 1960s. Existing management and business practices were questioned in light of the economic crisis. Firms recognized the need to break away from the past to handle the new challenges.

To examine each period in more detail by different functions of HRM, this paper has made extensive use of secondary data. Any HRM-related professional journals or research studies published between 1960 and 1998 were used. Particularly *Modern Management*, a publication of Korea Efficiency Association, provided data on historical trend of HRM in Korean firms and *Human Resource Management*, a publication of Korea Human Resource Management Association, provided valuable

information for time periods between 1980s and 1990s. In addition, in order to examine the history of HRM from 1960s to the present, to assess current state and characteristics of HRM in Korean firms in 1990s and, afterwards, to propose future direction that firms need to take, this study has used part of a paper presented at a conference in 1998 (Shin, 1998) and responses to questionnaires mailed to top 1,000 Korean firms listed in 1997 *Corporate Yearbook*, published annually by Maeil Economic Daily. The actual number of returned responses was 216. They were helpful in writing conclusions and implication sections of this paper.

3. Assessment of Current State of HRM: 1960s-1990s

3.1 Procurement

3.1.1 Job Analysis

The importance of job analysis is in serving as the first step in all the HRM activities, such as job evaluation, procurement, evaluation, development, compensation, and maintenance. However, the concept of job analysis and job evaluation along with research methodology were developed by western countries like the U. S., which emphasize work more than people. Therefore, it would be inappropriate to apply job analysis and job evaluation methods directly on Asian firms of Korea and Japan.

Since 1960s and 1970s, Korean firms in general emphasized people more than work. The whole concept of job was not yet formed, and much less job analysis was fully conducted (Chung & Lee, 1968). In other words, with seniority-based employment practice, word "duty" was often used interchangeably with "job" or "position," and, thus, the concept of the need for job analysis did not get formed but remained ambiguous. Some firms made attempts to conduct job analysis, but their effort turned out far from the original intent of the function and ended in merely being an overall management of employees. For example, in 1963 when Korea Electric attempted to use job analysis to reorganize total number of employees, they initially used Civilian Occupation Specification (COS) system, a reproduction of army's

Military Occupation Specification (MOS) (Ahn & Yang, 1993; Lee, 1969). Also, as a civilian firm Sam Yang initiated job analysis, but this was only intended for strict upkeep of employees (Lee, 1992).

Even in 1980s most firms had not expanded its understanding of concept of "job," and job analysis was still not established (Park, 1992). Seniority-based employment practice and utilization of *Wee-In-Sul-Kwan* (creating a new position for a certain employee) method of people-centered management were still in place (Paik, 1990). Along with Daewoo Automobile which started conducting job analysis in 1982, a few firms experimented with the technique, and thus contributed to making a small progress in this area (Suh, 1990).

In 1990s although more firms attempted to do job analysis, the process has been characterized by confusion and lack of knowledge. As scientific employee evaluation gained support, increased recognition of the need for job analysis and the need to change present compensation method from seniority- to abilities-based received wide support. However, due to lack of clear objective and also to a separate department to head the task, job analysis still has not become part of long-term HRM system. In addition, since job analysis is closely linked to employee selection, training and development needs, and hierarchy of job positions, it has also become a sensitive issue between labor and management. Recently, for the purpose of downsizing and restructuring, issue of job analysis has revived and been re-emphasized.

Although Korean firms did not even recognize the need for job analysis during 1960s and 1970s, in 1980s a few firms made attempts at job analysis. In 1990s the concept of job analysis and methodology took shape, yet it was still frequently used for simply managing personnel and for downsizing.

3.1.2 Recruitment

Recruitment should be included in the long-term planning of human resource. However, since job analysis, which is the beginning step of all the functions of the system, did not take off in earlier periods, recruitment as well, did not reach the level of scientific human resource planning. Recruitment traditionally consisted of selection based on special ties, private connections,

or academic achievement, or individual's long-term potential and abilities. In addition, because Korean labor market is not as mobile as that of the U. S., rather than recruiting from a small labor pool of experienced workers, the firms have traditionally preferred to select from a large labor pool of recent college graduates.

In 1960s and 1970s the basis of selection was a mix of private connections, graduation from high-level education, and discriminatory hiring practice against gender and home province. Even job opening announcements were made only to selected audience because practice of publicly announcing job openings was not widely used. Though, exceptions were found among financial institutions and textile companies who, in 1955, attempted to use public hiring methods to experiment with free market competition. However, even in those instances, most firms did not relinquish their former long-held practice (Choi & Nam, 1967).

In 1980s firms using open announcements of job openings at high-level education was 66.7% (large firms 86.1%, medium-size firms 52.2%). The rest used private connections when hiring (SNU Management Institute, 1985). A closer look at industries shows that food and beverage industry (78.9%) and electronics and electrical equipment industry (85.2%) used open announcement practice frequently, as well as fabric, clothing, and leather industry (54.4%), paper and printing and publishing (57.1%), and metals and materials processing (first level) industries (57.1%). In most of the cases, interviews were used as the main tool in selection (large firms 39.9% and medium-size firms 40.4%, and the rest 40.2%), and document examinations (22.0%, 24.4%, 23.4%) was second mostly used method. Large companies used written examinations more frequently (18.6%) than medium-size firms did (8.0%) and medium-size firms used personal recommendations (15.6%) more often than large corporations did (9.9%). In those firms where a particular department such as R&D or technology plays a critical role in firm performance and survival, tests matching individual abilities with job requirements were used as the main tool for selection.

In 1990s Korean firms' recruitment practice started to be more merit-based. For example, several companies developed their

own recruitment method to select competent workers. Samsung was the first company to eliminate academic achievement criterion, and since then, there has been a general movement among companies to divert its focus from focusing only on top-ranking school graduates. Written examinations have increasingly decreased in importance in applicant assessments, while interviews and aptitude tests have increased in proportion. In 1990s companies also began using interns. Daewoo Group, since 1991, through the joint effort with academia and business, developed internship program which procures early top talent by skipping normal selection process and judging applicants based on on-the-job performance for a given period. About thirty firms selected 3,000 interns in 1992, and in 1993, the number increased to about 70 firms for a total of 3,500 interns. And, the trend has been growing since.

In summary, in 1960s and 1970s recruitment was based on personal connections and degrees from elite universities. In 1980s, the focus was on job opening announcements only to select audience of top school graduates. In 1990s, the practice has been to move away from the past practice and towards merit-based selection with increasing diversity in recruitment methods among companies.

3.2 Evaluation

3.2.1 Performance Appraisal

For development of efficient management activities performance appraisals are used to evaluate and to collect data on individual competence, abilities, and achievements. Unlike their Western counterpart, Korean firms traditionally have given more weight to individual qualities and abilities than achievements.

In 1960s and 1970s rating systems in Korean firms were mostly done by managers who relied on personal judgment which can be subjective and irrational. During this time the number of firms conducting performance appraisals were few. The first private firm to attempt using appraisal system was Ho Nam Fertilizer in 1961 and other state-operated firms and government agencies adopted it around the same time. However, these evaluations contained personal bias plus reliance on such

factors as blood ties, provincial ties, school ties, academic achievements, and seniority. To move away from subjective method to a more scientific evaluation, rating systems were initially adopted, but it encountered various problems. Therefore, beginning in 1965 a single overall rating that averages overall job performance was used.

In 1980s, though the actual number of companies conducting performance appraisals increased, these appraisals were mainly intended to reward and discipline employees. Of the total number of firms surveyed, 58.5% (large 75.8%, medium-size 44.4%) conducted performance appraisals regularly (SNU Institute of Management Research, 1985). During this time employee policy and practice varied depending on regularity of performance appraisals. Korean firms' appraisal systems were still past-oriented, and promotion or demotion was based on employee's past performance. Performance appraisal was supposed to be composed of 80% personal character (commitment, diligence, leadership skills, and etc.) and 20% job performance, but these rating components only existed in policy because in reality education attainment and experience occupied greater proportions. Performance appraisals were conducted at two stages first by a superintendent one is directly under and second by a higher level superintendent. Then, a collaborated assessment were made between the different raters. Typical method of appraising used was planning beforehand results of evaluation as a normal distribution and fitting the actual results into the plan. There were also limitations on the uses of evaluation information. Results of the evaluation were informally revealed, and individuals were not given opportunity to give an input of self-evaluation. The whole process was merely procedural (Shin, 1984).

In 1990s as large firms began emphasizing development of merit-based appraisal system, there appeared to be changes in appraisal practices in general. There were increasing occurrences of breaking from previous method of measuring individual aptitude to a new emerging appraisal system that is based on merit and job performance. However, although many tried adopting pay-according-to-function system, the system turned out to be little different from the existing system of seniority-based pay system (Yu, 1998), which apparently showed

that a fair evaluation system was still not in place. In addition, the priority of making needed changes in appraisal system was pushed back by more urgent policies related to wages and other HR practices. Also, due to reasons such as senior management's lack of trust in appraising, evaluator's lack of skill and training, conducting performance evaluation in undisclosed manner, and inconsistency between purpose of appraising and use of the information, changes in the appraisal system were slow in taking place (Yu, 1998; Lee, 1992). However, during this time some firms began using multi-aspect self-evaluation, and various other appraisal tools. For example, Samsung revised its existing "self-monitoring and mentor-monitoring" method as a self-evaluation and used it company-wide. Ssangyong developed a new performance appraisal called "employee-input method" in which individuals wrote their own evaluation about their performance. The LG Electric used a method in which a lower level person evaluated a higher level person. The SKI used a procedure that included managing goals and objectives (Shin et al., 1995).

In summary, appraisal systems in 1960s and 1970s were influenced by supervisor or evaluator bias rather than being objective. In 1980s, although the number of firms conducting appraisal system increased, the system was intended for control purposes. In 1990s, multi-aspect evaluation and other diverse appraisal methods were used among large firms, and some firms fully adopted merit-based and job performance-based evaluation system.

3.2.2 Job Evaluation

In Korean firms, structural limitations makes instituting proper job evaluation system difficult. Job and tasks are neither divided to the lowest level like those in American firms nor are they comprehensively structured like those in Japanese firms. Due to sociocultural differences that set Korean firms apart from firms in other nations, seniority-based system that has long been in use cannot serve as an accurate measuring tool even if evaluation system was put in place (Shin, 1984). Due to such constraint, in 1960s and 1970s Korean firms did not conduct job evaluation. However, in 1973, Oil Refining company (now part of SK Corp.) conducted job evaluation, and, based on the

analysis, divided tasks into general and machinery (Ahn & Yang, 1993).

Though in 1980s there was a more wide spread call for job evaluation, it was still not adopted by most firms and only few firms actually conducted job evaluation. In 1990s attempts to institute job evaluation system increased, but Korean firms have not been able to reform their methods from the seniority-based job system. Jobs are not adequately specialized or standardized and the labor market with little mobility make job evaluation even more difficult to install. Though greater need for merit-based pay system and functional divisions were recognized, necessary conditions within and outside the firm are not present.

In summary, from 1960s to 1970s job evaluation was not conducted, in 1980s the need for job evaluation and a few firms actually attempting job evaluation sprang up, and in 1990s, with increased recognition of the need, more companies attempted to institute job evaluation system in their firms.

3.3 Development

3.3.1 Training and Development

One of the biggest factors that led to fast industrialization of Korea is high education level of workers, with the number of high school graduates exceeding those in other developing countries (Amsden, 1989). Peter Drucker noted that one of the major reasons behind the fast rise of Korea as a "developed economy" in just 20 years is due to administering sophisticated education and training program that train unskilled workers and continuing as they are gradually promoted to higher skills level positions (Ko, 1993; Suh, 1997). Knowing this to be a competitive advantage, Korean firms have continued to invest in development of their workers.

In 1960s and 1970s training and development focused on improving individual competence with the main purpose of enhancing interpersonal relationship among employees. In late 1960s a separate training department was created in firms, and it was a boom time for employee education and training. Increasing of number firms sent their employees for overseas study. However, although such training programs were given,

employees were not properly prepared to receive them. Firms were not concerned about effectiveness of these programs but were satisfied with just providing them (Chung & Lee, 1968). In 1970s, firms invested in training for mid-level managers as well.

In 1980s, education and training focused on developing a well-rounded employee who has deeper knowledge about jobs, better adaptability to changing environment, and greater interpersonal and technical skills. Particularly for new employees the training program focused on adjusting to corporate culture and conforming to unified code of conduct. Also in mid 1980s firms particularly emphasized strengthening of corporate culture. Some firms employed outside trainers and consultants and also On-the-Job-Training (OJT). Large firms regularly conducted training sessions. In terms of types of firms, food and beverages, non-metallic firms, and first-level metal firms used OJT comparatively more than other firms. However, Korean firms' education programs were not well organized and lacked relevance to employee selection and promotion activities. A key characteristic of these programs was unclear goals. However, the five largest conglomerates had well focused and organized training programs that taught managers to have a macro and global business perspective and that focused on developing skills and abilities that would enable them to adapt to dynamic and complex international environment. Also, employees did not have an option of choosing which programs they wanted or needed, but they had to meet at one place and time and received the same training. Food and beverage industry offered regular workshops, and non-metals and minerals industry relied on outside trainers and consultants. Metals (first degree) industry used OJT method more often than other industries, which shows that metals required greater accumulation of technical knowledge about development of internal labor market than other industries.

In the 1990s, the importance of education and training was increasingly emphasized. As a result in the mid-90s Korea's total corporate spending on education and training exceeded 1 trillion won (Ku, 1998). Among the 5,000 Korean firms, top 500 firms accounted for major proportion of corporate spending on education and training. For the top 500 firms, the training expenditure occupied 0.19% of average sales, with average

annual increase of 17.77% (Ku, 1998). Although the programs changed its focus to more specialist-developing orientation, the new employee training sessions still focused on conforming to corporate culture. For example, in Ssangyong the ratio between organizational culture building to job training came out to be 7 to 3 (Lee, 1992). In mid 1980s, education and development programs emphasized the increasing importance of corporate culture, and in 1987 these programs were used specifically to prevent major labor unrest. Systematic training and development programs, developed by the five largest conglomerates in Korea during this time, focused on developing a strategic perspective to management and adaptability and flexibility in the dynamic environment.

In summary, training and development in Korean firms in 1960s and 1970s was oriented towards development of employees' abilities, and in 1980s it focused on producing well-rounded employees. In 1990s, specialist-oriented education programs and systematic training programs for managers were developed.

3.3.2 Promotions

In 1960s and 1970s promotions were based on special relations such as blood ties, provincial ties, school ties or on seniority. The practice originated in early years of fast industrialization when labor problems related to promotion did not exist. Back then emphasis was on people rather than finding the right people with appropriate skills for the job (Chung & Lee, 1968). In addition, in most of the firms performance evaluation was not conducted. Even if evaluations were made for the purpose of job promotion, most of the companies still based promotions on individual judgment, seniority, experience, and education achievement (Kim, 1978; Park, 1975). Only beginning in 1980s, firms began to recognize the importance of merit-based promotions. Nevertheless, seniority system was still entrenched in corporations in which satisfaction of 3-5 years of service automatically qualified the individual for promotion. Two methods of promotion were used: promotion within the organization and recruiting from external sources. The number of levels of job hierarchy was increased to 12 levels to fulfill the strong promotion needs of employees, but this became a serious

problem at times due to practice of promotion without pay increase.

In 1990s, in firms' efforts to use a combinational system of competence- and seniority-based structures a new system of functional-qualification was developed. In the case of Korea Electric, for general tasks competence was used as criteria, and for functional tasks seniority was used. The purpose was to develop appropriate promotion policies for different tasks. Ssangyong Cement developed a promotion system that incorporated a variety of factors such as seniority and competence, task differentiation between supervisory and specialist, internal promotions for core employees, accumulating work experience, formal education, and detailed evaluation. Kolon Corp.'s promotions system for the administrative positions were based on experience and competence, and for permanent staff positions seniority was more heavily used. In the 1990s special selection and scouting method that emphasized job performance and abilities was introduced to accelerate breaking away from old method of promotion. Such effort served to transition firms from using seniority-based system to a competence-based one.

In summary, in 1960s and 1970s, seniority-based system was used. In 1980s, that system continued, but increasing need to incorporate competence was recognized. In 1990s, special selection and scouting methods were used.

3.3.3 Job Rotation

In 1960s and 1970s the concept of job rotation was not even developed. Because the trend was to produce "generalists" it was believed to be better to work and learn various duties of the job under one employer for a long time. Therefore, rather than training workers based on performance appraisal and objective assessment of employees, the process was more relationship-oriented and people-centered. Thus, in unavoidable circumstances, those based on seniority were more practiced than systematic job rotation and promotion.

In 1980s there was not any commonly practiced method of conducting job rotation, but each firm conducted job rotation according to its need (Shin, 19984). The criteria used in job rotation and placement depended on the department's

preference and performance appraisals. Decisions of job placement and rotation in large firms were based on individual's choice of preference, and in medium-size firms, decisions were made by supervisor based on his personal judgment (SNU Management Institute, 1985). In 1986 Ssangyong Cement was the first among very few firms that adopted company-wide posting of job rotation.

In 1990s the principles of job rotation were not properly set up due to the introduction of personnel management oriented to improvement of individual competence and the social trend emphasizing "specialists". Because the number of employees training to be generalists for career in the top management was small job rotation was not widely practiced. Therefore, similar to the 1980s, during this time specific rules about job rotation did not exist. However, unofficial form of job rotation did occur in firms that began using project teams in which people from different departments became a team and worked on the project until completion. For example, firms like Daewoo Heavy Industries and Ssangyong Cement began using internal job posting announcements.

In summary, in 1960s and 1970s job rotation was mostly not practiced, and supervisors decided any rotational decisions on ad hoc basis. In 1980s job rotation was still left up to the supervisor, but employees' preferences were taken into account. In 1990s with employee career development internal postings of job placement and rotation were employed.

3.4 Compensation

3.4.1 Wage

In 1960s and 1970s wage system operated on seniority basis (Chung, 1982). In 1979 Korean Business Leaders Association (KBLA) conducted a study on current state of wage practice in Korean firms. Most of the 741 firms studied practiced seniority-based wage system (Chung, 1979). The job-based wage, which pays the same wage for doing the same job, and the efficiency-based wage were relatively more prevalent. Administrative and sales jobs used monthly wage system, and productions and manual labor jobs used daily wage system. In the latter half of 1960s some firms attempted to use pay system based on job

analysis but produced poor results. It turned out to be little different from seniority-based system.

In 1980s a two-part wage system was used, where a fixed wage level based on length of service and a variable part of the wage called bonus. Many firms based their wage decisions on individual employees and seniority factors. The dominant factors deciding the fixed part of wage were length of service and experience, and performance appraisal, and task completion was less important (SNU Institute of Management Research, 1985). An interesting phenomenon during this time was that the gap in pay between high school and college graduates was beginning to narrow. Rather than in small firms, the large firms and firms in foods and beverage industry placed higher importance on education attainment. Also, more new employees were selected from science and engineering majors than liberal arts.

In 1990s adoption of annual salary system have begun to spread. However, in the transition period of the 90s annual salary system in Korean firms has gone beyond the traditional seniority-based system and included employee performance to rationalize wage policies. In 1994, Doosan Group was the first firm to institute merit-based pay system. Doosan's effort to adopt such system was part of spreading trend that LG Electric in 1993 began, and although their effort to use merit-based, annual salary system was on the surface level, it contributed to making progress in this area. Other firms that instituted the system applied the annual salary system to management, technical and design specialists, expatriates, and on special departments. Also, the pay system had 16 wage levels plus quarterly bonuses.

In summary, during 1960s and 1970s, pure seniority-based wage system was in place, and in 1980s it was a combination of monthly or daily payment and seniority system. In 1990s the trend has been to continue to use seniority wage system and partly incorporate Korean-style annual salary system. However, emphasis is still more on seniority and academic attainment and less on employee motivation and development of employee skills and abilities. In some cases, the wage system has become so complicated that effectiveness of it decreased significantly (Lee, 1997).

3.4.2 Incentives

Firms have used bonuses and other rewards based on exceptional performance as incentives to employees. In 1960s and in 1970s, bonus system operated on scheduled periods and paid fixed amount of money, therefore, was not very effective as an incentive. And, the rewards were ineffective incentive tools as well since all employees took turns in receiving them in accordance with past practice regardless of performance. If firms were to give out rewards only to a few individuals, such practice could create interpersonal problems of envy and jealousy. There was also difficulty in accurately attributing work performance to any one individual in cases of team work. In 1980s this incentive system continued. An incentive system based on performance of individuals was difficult to institute due to employees' of distrust of fair evaluation and assessment of their work performance.

In 1990s several firms installed performance-based incentive system. In 1990 KBLA conducted a survey of 1,500 companies to which 227 responded. It was found that 87 (38.3%) companies either adopted or practiced incentive system, and 23 used profit-sharing (Chung, 1991). According to 1991 research done by KBLA on 356 firms or 48 (14.1%) used profit-sharing. Profit was calculated based on earnings 32.4%, productivity 29.4%, and sales 27.9%. The rewards were composed of bonus 27.1% and fringe benefit 25.7% (Kim et al., 1992).

In summary, in 1960s and 1970s incentives used in Korean firms were given out in fixed amount of money and at set times. In 1980s companies attempted to practice a more meaningful and effective incentive system than that of the past but with poor result. In 1990s, profit-sharing system and greater use of incentive are more widely practiced among firms.

3.4.3 Employee Benefits

Korean firms have offered more comprehensive fringe benefit package than any other country in the world. The benefit package in Korea typically has more variety than in Europe, and thus, helps in filling the inadequacy of public services and facilities left by the state (Yu, 1996). In one sense, the quality of the package is higher than the popular Employee Assistance Program (EAP), popularly used in the U. S. for organizational

development.

In the 1960s and 1970s the Korean firms had given employee benefits as a show of generosity on the part of the firm. With little legal guidelines, firms used their discretion in creating and handing out benefits package for their employees. In 1967 the Jaeil Bank was the first to provide benefits to accomodate those with tuberculosis and other serious illnesses. Development of medical discount, summer vacations, and sports tournaments for health fitness were introduced in the 60s and 70s.

In 1980s employee benefits package was used to resolve employee complaints and to soothe tensions in labor relations. Management of benefits system was still undeveloped, but Korean firms made significant effort to improve quality of the system (Shin, 1984). In 1990s Korean firms managed the benefits system to increase the quality of living for their employees. Legal guidelines for retirement pay, vacation days, sick leave, special consideration for physically disabled, medical insurance, employment insurance, etc. were being developed. According to Song's study, in 1994 Korean firms' average expenditure on employee benefits system was 5% of sales, 15% of labor expense, and 18% of net sales for a single financial period (Song, 1995). However, depending on the affordability of firms there were significant differences among benefits packages at different firms.

In summary, in 1960s and 1970s firms provided employee benefits as show of grace and generosity. In 1980s, though quality of package improved, and the management of the system was still undeveloped. In 1990s to more diverse and higher quality packages were developed.

3.5 Maintenance

3.5.1 Turnover

Since an internal labor market has been developed in Korea unlike an external labor market seen in the U. S., employees have had attitude of maintaining loyalty to one company when they start working. That is a primary reason for Korean firms to avoid layoff as much as possible. However, in the latter half of 1990s such attitude toward work has been severely shaken after the economic crisis.

In 1960s and 1970s there was no need to manage turnover. During those years problems of aging population, high education-level, turnover of middle-aged workers did not arise. However, nonexistence of problems with turnover did not mean that turnover rate was low. In 1981 monthly turnover rate in Korean firms was 5%, which was high for the U. S. standard and also for Japanese firms, who had less than 2%. Thus, though the rate was high, it simply did not arise as a problem because it was easy to find a replacement in the labor market.

In 1980s, the need to manage turnover was recognized. According to one survey, average turnover rate for medium-size firms was 31.14% and for large firms 26.47% (SNU Institute of Management Research, 1985). Among the employees that changed jobs, 50.17% stayed with the company for less than 1 year, showing high turnover rate among new employees. The rate was higher in medium-size firms at 54.91%, which is ten percent higher than that of large firms. The rate was highest for companies with 100 or fewer employees at 57.97%, and lowest for companies with 2,000-5,000 employees at 30.32% (SNU Institute of Management Research, 1985). However, unemployment was not a big problem during this time, and turnover was manageable.

In 1990s managing turnover became necessary, but the focus became laying off human resource rather than on maintaining it. Due to stagnant business growth, advancement in technology, aging workforce, low productivity of workers, human resource backlog or accumulation, and oversupply of labor within firms, many firms began adopting and practicing early retirement programs to downsize the human resources. Unemployment has risen even more under the terms of IMF assistance package. In June 1998, the number and rate of unemployment were 1,530,000 and 7.0% (KSA, 1998), and both were record numbers. In the backdrop of these escalating figures, tensions between labor unions and businesses have increased.

In summary, in 1960s and 1970s, employee turnover was not a serious problem due to fast economic growth. In 1980s, proper management became necessary due to increase in turnover rate. In 1990s, the focus of managing turnover was on early retirement and layoffs, which have caused further conflicts with

labor unions.

3.5.2 Labor Relations

The labor relations referred to in this paper is dealt on micro-level where relationship between manager (user) and workers are on equal footing through negotiations and employee participation work to increase productivity and stability of the firm.

In 1960s and 1970s, problems with labor relations were handled by the management, and internal complaints were resolved informally. However, because labor-management relations were characterized by typical Korean tendency called *Shin-Pa-Ram* — the mental condition that make people do their job actively, voluntarily, creatively and joyfully — it sometimes fluctuated from being manageable to out-of-control during crisis. It was during these times of conflict that demand for better wage and working conditions were voiced. Shutdowns, strikes, and voluntary work stoppages also occurred then (Park, 1975).

In 1980s, labor unions' relationship with firms gradually changed to one of tension and hostility. In most of the cases, unionism operated separately in the firms employees belonged to (Shin, 1984). The top issues between labor and management pertained more to general economy and tangibles, such as wage, status, and work conditions, rather than societal and psychological issues, such as work participation and increasing quality of living for employees. Particularly, wage and employee benefits had higher priority. In large firms the top issue at management-union discussion was wages, and in medium-size firms, they were working conditions and employee benefits (SNU Institute of Management Research, 1985). Employee-stock-ownership plan was introduced, only 20% (large firms 35.7%, medium-size firms 10.7%) of the firms actually practiced it. Union-participation was low at about 31.2% (large firms 50%, medium-size firms 20%) (SNU Institute of Management Research, 1985). About 79.8% of all firms (92.7% for large firms) had unions set up within their firms to abide by the law, but actual use of unions was low (Kim, 1996; Kim, 1992).

In 1990s it became obvious that cooperative management-union relationship is an essential component of becoming globally competitive. On the other hand, due to "IMF economic

conditions" layoffs and restructuring have become inevitable consequences. Issues of how many and who have restarted the conflict between the union and the management. In the case of LG Electronics, instead of "labor user and laborer relation," they jointly agreed to choose the term "workers and management relation". Decisions to have joint worker-management business conferences and joint declarations were first suggested by labor unions, and the company in return increased its effort on improving work conditions. A hostile relationship between the labor and management changed to a cooperative one.

In summary, in 1960s and 1970s, labor-management relations were characterized by patriarchal system, and in 1980s, a more horizontal and peer relationship were developed, characterized by hostile oppositions. In early 1990s, a more cooperative relationship began, but due to IMF crisis that caused significant layoffs in late 1990s, it has begun to disintegrate.

4. Overall Evaluation and Future Outlook of HRM

4.1 Overall Evaluation

In this paper, we have looked at each functions of Human Resource Management from 1960s to 1990s. A summary of Korean HRM practices is presented in Table 1. First, in 1960s and 1970s, because Korean firms did not even have the concept of HRM, traditional method of personnel management was used. During this time internal labor market began developing, and higher importance was placed on people rather than on work itself. Experience and academic achievement were emphasized in decisions related to selection and wage. Performance appraisals and job rotations were seniority-based. Employee benefits and labor-management relations followed patriarchal system. Job analysis, performance evaluation, and incentive plans were not conducted objectively.

The 1980s was characterized by restoration of Korean economy. With the holding of 1988 Olympics in Seoul, Korea's status in international arena was significantly enhanced. Although some functions of human resource management were reformed, traditional method of personnel management was still

Table 1. Characteristics of HRM in Korean firms by Period

Periods		1960s~70s	1980s	1990s
Items				
Stages of Korean Economic Development		Challenge	Revival	Transition
Characteristics of MHRM in Korean firms		Dominance of Traditional Korean Culture (Development of Internal Labor Mkt.)	Partial Adoption of Western Management Methods (Some Similarities to External Labor Mkt.)	Hybrid of Traditional & Western Management Methods (Internal vs/ External Labor Mkts.)
1. Procurement	1. Job Analysis	Concept not established	Initial attempt made	Development begun (greater frequency of use under the guise of managing staff and downsizing)
	2. Recruitment	Based on specialties & ed. achievement	Open hiring method based on ed. achievement	Achievement- and competence-based (Diversity in hiring)
2. Appraisal	1. Employee Evaluation	Superior-centered subjective evaluation	Control-oriented	Diversity in evaluation methods & introduction of abilities & achievement
	2. Job Evaluation	Absent.	Recognition of need	Recognition of need for and partial conducting of job evaluation
3. Development	1. Training & Develop.	Employee-focused program given	Total person-oriented program given	Specialist-centered program introduced
	2. Promotions	Seniority-based	Seniority-based (Recognition of need for abilities-based system)	Search for abilities/merit-based promotion policy (internal recruitment method used)
	3. Job Rotation	Concept not established	Superior-centered job rot. of convenience	Partial consideration of employee voice

Table 1. Continued

Periods		1960s~70s	1980s	1990s
Items				
4. Compensation	1. Wages	Entirely seniority-based wage policy	Daily wage system (Abilities-based recognized)	Partial adoption & expansion of annual wage system
	2. Incentives	Absence of incentives	Unmatured operation of incentive management	Performance-tied incentive plan adopted
	3. Benefits	Given out of grace and generosity	Increased efforts of qualitative increase of benefits	Given to raise employee's quality of living
5. Maintenance	1. Turnover	Absence of turnover strategy	Need for turnover strategy surfaced	Downsizing-oriented turnover strategy (early retirement/layoff)
	2. Labor Relations	Patriarchal	Hostile	Cooperative and confrontational

being carried out for most of the functions. However, there were sporadic instances where several firms adopted foreign HRM methods that had characteristics of external labor market. The popular U. S. and Japanese management techniques were used without accounting for cultural and societal differences. When several firms began adopting them, others followed suit like a hip trend. The techniques pertained to job evaluation, management by objectives (MBO), career development, and others. However, after ten years, those practices remained only on paper. With very low success rate of Western style management techniques in Korea, most firms continue to use the method practiced in the 60s and 70s.

The economic success of 1980s had continued to early 1990, but it has discontinued in the latter part of this decade when economic crisis has broken out. The crisis has forced firms to accept Western management practices. In early 1990s, many firms adopted “new HRM” which included a more job-oriented approach, individual abilities-based wage and incentive system, a slimmed-down organizational structure with incorporation of

project teams, development of a specialist, and strengthening of management education. In the latter half of 1990s, companies have used layoffs, early retirement program, and annual wage system to satisfy conditions placed by the IMF, but they have also faced strong opposition from labor unions and resistance from employees. Whether firms should stay with previous style of personnel management that emphasized long-service to satisfy workers that are too entrenched to change or adopt drastic, new measures that can reform and innovate the current structure and system is a dilemma that Korean firms are facing in the present times. Confusion and chaos associated with dealing with strengths and weaknesses of both internal and external labor markets began to appear.

In the period from 1960s to 1970s when Korea was in its early stage of economic revival and the conservative cultural values dominated the society during this time, firms employed traditional personnel management system. In 1980s, in their effort to grow and expand globally firms tried to use popular western human resource management techniques or external labor market-oriented system, but only superficially. In 1990s, there were increased adoption of the U. S. human resource management practices, but such adoption clashed with existing traditional personnel management practice (internal vs. external labor markets). Therefore, this period can be characterized as "hotchpotch" without one consistent method of practice. A recent study by Shin (1998) was done on 216 firms to find a certain consistent method of HRM that Korean firms espoused. Data was collected asking questions to 24 items (Shin, 1998). As Table 2 shows 28 companies still used traditional personnel management (13%), 11 companies adopted western techniques (5.1%), 65 companies used a hybrid of both (30.1%), and 112 companies used hotchpotch (51.8%).²⁾

Traditional method used here refers to that which promotes traditional Korean culture and consistent management

2) To decide which method is mainly used among Traditional Method Used, Western Techniques Adopted, and Hybrid of Both approaches: first, count the number of each approach; second, if the total for one approach outnumbers the sum of the other two approaches then the firm belongs under the larger sum category; third, if the total for one approach does not outnumber the sum of the other two, the firm belongs under Hotchpotch of everything.

Table 2. Implementation tendency of People-oriented Management
(No. of firms (% of total)); N=216

Traditional Method Used	Western Techniques Adopted	Hybrid of Both	Hotchpotch of Everything
28(13.0)	11(5.1)	65(30.1)	112(51.8)

Source: A portion was taken from Table IV-2 in Shin, Yoo Keun. (1998). "Study on Actual Practice of People-oriented Management in Korean Firms." *The Korean Business Journal*, SNU Institute of Management Research, vol. 32, no. 3, pp.147-175.

technique. Western techniques adopted means adopting the U. S. management techniques. Hybrid means combining commonly used management techniques from the U. S. with traditional Korean practice through planning and goal setting. For example, the ratio between uses of the two methods can be 3 to 7 or 1 to 1. Hotchpotch means that there lacks a consistent method when implementing, which creates confusion at micro level. It is a situation in which the company either lost direction while implementing or is stuck in transition between old and new method. It can also be a state in which the company is using all of the methods simultaneously for different divisions, and thus lacks a single consistent one.

As can be seen from Table 2, there was not a single consistent method used to manage human resource in Korean firms. About 51.8% of the time it was a hodgepodge. It proves that firms were confused and did not know which method to use or not to use.

4.2 Future Outlook and Priorities for HRM

4.2.1 Outlook on Future Development of HRM

To be well-positioned for the new millenium and compete effectively in the ever changing business environment, Korean firms need to find a consistent and suitable HRM practice to meet their needs. They need to find out what works best for them. In order for Korean firms to overcome current economic situation, they need to have clear direction and goal about HRM practice (Garavan, 1991). There are two proposed ways to resolve the current situation.³⁾

The first view is just as firms have done for production &

operations management, R&D, finance, accounting, and MIS they could change current HRM practice by adopting successful western methods to meet the global standard. Typical American practices like annual salary, downsizing, and development of specialists are more appreciated due to IMF conditions. Based on the convergence theory, this view insists that by benchmarking to successful foreign practices, Korean firms likewise can succeed in reforming their current system (Kerr et al., 1960).

A second view says that since the methods are culturally confined, a company should take into consideration strengths and uniqueness of Korean culture and society to develop more fitting management style and technique. For example, if the source of problem is not with the seniority-based system but with the way it is used and implemented, then it can be resolved by changing the way the system is operated. This view disagrees with completely doing away with old methods since some aspects had political and cultural importance, like caring for employees as the whole person. Based on the divergence theory, this view insists that industrialization and capitalization must be understood as a complex process that involves unique cultural and national factors (Rojek, 1986). Due to economic crisis that has hit the east and southeast Asian countries including Korea and Japan, this view has not been readily received.

However, merely choosing between the two as a solution to overcome the crisis and regain competitiveness is also problematic since organizational evolution is not developed in the same way for all the firms, and the firms do not stick with old methods of HRM although they used to be efficient in the past (Chang, 1998). Firms should find a suitable practice through trial and error. The form that will result from their search should not be a hodgepodge of all different methods, but by taking a combinational and integrative approach they can arrive at a more concrete solution (Asley & Van de Ven, 1983). Today's multinational companies (MNCs) are a case in point. The MNCs take into consideration host country's societal effect

3) Unlike the view that future changes in industry structure, labor market, labor policy, information & technology, and economic and technological situation should be monitored to find direction of future development of HRM, this paper takes the socio-cultural perspective.

stemming from different cultural norms, organizational effect shown through expansion of technology and corporate culture, and globalization effect of similarity in national policy (Mueller, 1994). In addition, organizational learning, which can be a stimulus to strengthening firm's competitiveness, is not simply imitating other methods, but by breaking away from ineffective methods firms discover and create a system that suits their needs, capabilities best (Kwon, 1996). The author's suggested approach is a hybrid one. Table 3 shows effectiveness of each method under implementation. The average differences between each method are all $p < 0.05$. The results of multiple range test show hybrid one is more effective than traditional, direct-import, or hodgepodge methods. The hybrid approach resulted in higher employee commitment, work satisfaction, stability in labor-management relations, effort to improve productions, and lower employee resistance to innovation and change and turnover rate.

The results of the table shows that if Korean firms were to adopt combinational approach, firm effectiveness would increase. It also reminds us that on issues related to people one cannot ignore the cultural factor. In conclusion, Korean firms should not simply continue their old way of managing human resource, but they should combine good points from the traditional method and from the popular western methods to develop a hybrid model to apply to their situations.

4.3 Priorities for Development of Human Resource Management in Korean Firms

Then, what should firms do to implement the hybrid approach? In order for firms to combine the best of the traditional method and the best of western management practices, the senior management needs to have strategic mindset and take strategic approach to problem solving. The term "strategic" refers to aligning activities of HRM with long-term corporate strategy to create an internal fit between the integration of the activities as a whole and HRM system and business strategy. In addition, the hybrid HRM system based on strategic approach will serve as a critical tool to compete in the dynamic and global environment.

We need a new paradigm different from the past one. Items at

Table 3. Differences in Organization-level Validity by Implementation Method of People-oriented Management

	Implementation method of people-oriented management (# of firms)				Univariate Analysis						Multiple Range Test
	Trad.	Adopt.	Hybrid	Mix.	Group	Total Square	deg. of Freedom	Average Square	F-value	Level of Sig.	
Employee commitment	2.4646 (28)	2.7273 (11)	3.2154 (65)	2.7768 (112)	Betw. Within	13.5561 91.5504	3 212	4.5187 .4318	10.4638	.0000	Trad-Hyb Mix-Hyb
Resistance to innovation	2.4444 (27)	2.2727 (11)	2.0000 (64)	2.1364 (110)	Betw. Within	3.9517 87.8030	3 208	1.3172 .4221	3.1204	.0270	Trad-Hyb
Job preference	2.5714 (28)	3.0909 (11)	3.0769 (65)	2.7589 (112)	Betw. Within	7.0856 102.8727	3 212	2.3619 .4852	4.8674	.0027	Trad-Hyb Mix-Hyb Trad-Adp Mix-Adp
Separation	14.5417 (24)	12.9091 (11)	7.1244 (45)	10.4167 (90)	Betw. Within	961.6732 23139.8351	3 166	320.5577 139.3966	2.2996	.0793	N. S.
Stable labor relations	2.4400 (25)	3.2727 (11)	3.3016 (63)	3.0541 (111)	Betw. Within	13.7793 127.2873	3 206	4.5931 .6179	7.4334	.0001	Trad-Hyb Trad-Mix Trad-Adp
Effort to improve productivity	2.5185 (27)	3.1818 (11)	3.2031 (64)	2.9643 (112)	Betw. Within	9.3877 82.5936	3 210	3.1292 .3933	7.9563	.0000	Trad-Mix Trad-Adp Trad-Hyb

Note: N.S. denotes at 0.05 level groups having differences did not exist.

Source: A portion was taken from Table V-2 in Shin, Yoo Keun. (1998). "Study on Actual Practice of People-oriented Management in Korean Firms." *The Korean Business Journal*, SNU Institute of Management Research, vol. 32, no. 3.

opposite ends of the spectrum need to be integrated, such as seniority-based and merit-based, emphasis on individual personality inner character and on specialist, and blood-ties and non-blood ties. By integrating the best of both methods, rather than choosing one over the other, a new paradoxical paradigm can be created (Lee, 1993; Yoon & Kim, 1998; Shin, 1996).

In this paper I suggest several ways to implement hybrid approach. First, there is modified seniority-based system. Due to changing environment and globalization, one of the sources of firm competitiveness lies in developing people as specialists. With knowledge and information becoming more diffusive and an increasing call for fair and quality treatment of employees, a system that is based on both seniority and individual knowledge, skills, and abilities can meet the demands of changing environment. In technical and professional areas where special skills and knowledge are essential requirements, one can devise a multi-system, in which selection and placement, job rotation and promotion, and various training and development programs are adapted to meet specific needs of those individuals. However, as time passes a new system should be set up that accommodates specialists' knowledge and skills and that encourages developing their expertise in other areas through job rotation, promotion, and training and development.

Second alternative is allotting different proportions to the contrasting items. For example, in areas like compensation and performance appraisal depending on the needs, either or both seniority and merit factors can be used in the same system. For example, in deciding compensation for management, one can use seniority and merit on a 3 to 7 ratio. On the other hand, when deciding on promotion one can use seniority and merit factors on a 7 to 3 ratio. In merit-based performance appraisal, one should not completely rule out individual's innate abilities and job attitudes over task-related abilities and potentials, but use them in fair proportions. This is particularly true in lower level positions. In high-level position within the company where it is assumed innate abilities and potentials have been fully exhausted one should not neglect task-related abilities and skills.

A third alternative is using strategically contrasting methods depending on organizational life cycle or strategic direction. If

the firm takes the strategic position of prospector, then emphasis should be on qualitative performance appraisals and merit-based compensation system. If it takes defender position, qualitative performance, firm should place emphasis on appraisals, when process and quality are of higher importance, and on seniority-based compensation system (Miles & Snow, 1984). On the one hand, if the organizational life cycle is in growth stage, performance appraisal should be based on market share and sale and salary- and incentive-based compensation system. For firms in mature stage, performance appraisal should be based on efficiency and profitability, and compensation system should have incentives tied to efficiency. For firms in declining stage, performance appraisal with emphasis on cutting cost and effective incentive management (Fombrun & Tichy, 1983).

In summary, by incorporating and integrating the best of traditional HRM practice and western management practices a new paradoxical management system can be created. The new system would have elements that pertain to unique Korean culture and also is globally competitive and fitting for the changing business environment of the twenty-first century.

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