

The Transformation of Industrial Relations in Large-size Enterprises in Korea: Appraisals of Korean Enterprise Unionism

Edited by

Changwon Lee
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**THE TRANSFORMATION OF INDUSTRIAL RELATIONS IN
LARGE-SIZE ENTERPRISES IN KOREA: APPRAISALS OF
KOREAN ENTERPRISE UNIONISM**

Edited by Changwon Lee & Sarosh Kuruvilla

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PREFACE

This collection of original studies aims to examine the characteristics of industrial relations in large companies, which have dominated industrial relations in Korea since 1987, from an international perspective using multi-level analytical approach. Through a rigorous investigation into the past and present state of industrial relations in Korea, the authors of chapters in this volume also seek to shed light on the direction of future development of industrial relations in Korea.

In particular, each chapter will focus on explaining the emergence of confrontational and rigid industrial relations accompanied by the predominance of internal labor markets at the enterprise level. The analytical levels that the authors in this volume engaged range from the micro dimension of workers' characteristics, the meso-dimension of enterprise development and labor movement, the macro dimensions of economic and social development, and all the way up to the supra-macro dimension of international comparison.

Although there have been many researches that assess the development of Korean industrial relations since 1987 as well as researches that point out the problems of industrial relations in large-size company sector, it is not easy to find studies that systematically analyze the situation from an international and comprehensive perspective that takes the interaction between the various dimensions into account. In addition, Korean case was usually dealt as one of the comparison cases in international comparative studies, and as a consequence, the unique conundrum of Korean industrial relations has not been analyzed thoroughly.

For this reason, authors in this volume have carried out an in-depth analysis of the large-size enterprise industrial relations in Korea from multiple standpoints elucidating the peculiarities which have evolved in the Korean context as well as the commonalities that Korea share with other countries on a similar development trajectory.

Through the analysis, we have arrived at an overarching view that in-

dustrial relations in Korea which have been dominated by large firms have gradually shifted from a model based on democratic voices to a model based on monopoly effects with some overlapping periods between 1987 and 1997. However, this transition to a dysfunctional model based on market monopoly has become more pronounced since the Asian Economic Crisis as polarizations in the labor market and unions' bargaining power by firms' size have developed rapidly.

As a consequence of the shift to monopolized market share, employers of large firms could afford to pay high-level wages while maintaining the unprecedented record amount of profits. During this time, the subcontracted firms and workers in those firms were barely surviving the market competition. By the same token, unions in large firms normally diverted their attentions from nonstandard workers who worked in and out of their firms. Moreover, attempts to mobilize industry-level unions to overcome the limits of enterprise unions have often been blocked partly by non-responses from large firm unions.

As they are caught between the continuous indulgence of market privileges and the need to represent collective voice within firms, unions in large firms eventually faced serious status inconsistency; enjoying bargaining power within firms but withdrawing from national leadership of trade union movement. In the following chapters, many authors call for prompt reform of this deadlock caused by the transformation of 1987 regime in industrial relations.

In this volume, Chapter 1 provides an overview of the main issues discussed in the volume and Chapter 8 attempts to sum up the arguments and findings. Other chapters delve into specific issues they raised within the general backgrounds of comparative industrial relations. Despite the divergent emphases, all chapters were written with a common theoretical orientation in that they regard that the industrial relations in Korea are institutionally mattered as the environments and strategies of players have been changing.

In addition, taken together, chapters in this volume have shared the view that the current state of industrial relations in Korea, which is characterized by the market domination by the large-size company sector and the militant, politicized, and confrontational enterprise industrial relations, is in a dire need of reform.

The reform that the authors call for is the kind of reform that aims to

achieve an extensive second transformation of Korean industrial relations toward one that is sustainable and create competitive advantages in a global society. In its first transformation centered on large firms, Korean industrial relations had artificially attained its relative stability based on monopoly privileges and increased utilization of nonstandard works. As a result, this temporary hiatus of labor struggles lacks sound and sustainable stability, and is sometimes forcefully maintained by employers and unions in large firms squeezing unorganized and less powerful workers in the downstream supply chain.

In my own view, collective voice guided by social welfare concerns and managerial initiatives driven by corporate social responsibility, regardless of the bargaining structure they will arrange in the near future, are the key factors that can shed new light on the enterprise-level industrial relations in Korea.

March 2006

Young-ki Choi
President
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SUMMARY

Recently, there have been a number of researches that evaluate the development of Korean industrial relations since 1987 as well as researches that assess the problems of industrial relations in large-firm sector. Yet, there have been few studies that systematically analyze the situation from a broader comparative perspective using advanced analytical tools. Also, if the Korean case is considered in comparative studies, it is usually treated as an interesting side-case to mention, and as a consequence, the unique conundrum of Korean industrial relations has not yet been analyzed thoroughly.

In this context, this study aims to fully and accurately depict the reality of Korean industrial relations, divulging its peculiarities as well as commonalities it shares with other countries from multiple angles. Despite the varied perspectives and methodological approaches each author takes, there is a common thread that goes through all the chapters, which is the overarching view that industrial relations in Korea which have been dominated by large firms have gradually shifted from a model based on democratic voices to a model based on monopoly effects with some overlapping periods between 1987 and 1997.

Moreover, this transition to a dysfunctional model based on market monopoly has become more conspicuous since the Asian Economic Crisis as polarizations in the labor market and unions' bargaining power by firms' size have developed rapidly. As a consequence, the past two decades' industrial relations structure led by large firms is now not fit or capable of overcoming the newly emerged social and economic cleavages in Korea. In the light of the situation closely described by studies in this volume, Korean industrial relations structure which has not been properly stabilized since 1987 is in dire need of reform.

In this volume, the first chapter offers an overview of the main issues discussed in the volume and the last chapter summarizes the ar-

guments and findings. In the first chapter, Changwon Lee provides an explanation for the rise of militant unionism and confrontational industrial relations in large companies in Korea. An interesting conundrum in the labor relations in Korea is that militant unions are concentrated in large companies, where workers enjoy stable employment conditions and some degree of union power. He argues that after democratization, both large employers and unions made strategic choices in favor of enterprise unionism instead of industry-wide unionism. Employers chose enterprise unionism because they considered smaller unions easier to deal with and thus offer greater firm-wide stability, while unions chose enterprise based structure because they saw this structure as more effective for wage increases. However, Lee argues that enterprise based unionism in Korea did not produce the kind of stable and flexible industrial relations that it has produced in Japan.

Lee attributes the source of militant struggle between labor and management to overly politicized strategies undertaken by both parties. In particular, the owners of large firms often relied on their privileged relationships with the government to quell union demands that challenged their ownership and control, while granting the union's demands for wage increase. Unions also adopted political strategies that focus heavily on social issues and government authoritarianism. These strategies, however, only led to higher wage increases. This particular political strategy was chosen by the KCTU (Korean Confederation of Trade Unions), which was fighting for the recognition as a federation in early 1990s. Despite representing a majority of workers in large companies, KCTU did not earn official recognition until late 1990s. The increased democratization of the labor movement after 1987 also led to a new generation of leaders who strengthened workplace organizations. However, the new leaders used union organizations for economic purposes, rather than for larger political purposes. Thus, although the rhetoric was at the political level, the real motive and methodology was at the economic level, because increasing wages was the key means of building member support and commitment.

The intensifying dual structure of the Korean labor market, where workers in large companies enjoying functional flexibility while

workers in small companies are without protection, requires, in Changwon Lee's view, a departure from the current "bargaining" model to a model of social concertation that will encompass the interests of all workers, not just workers in large enterprises represented by unions.

Dae-Il Kim's paper attempts to document the structure and the labor market outcomes of Korea's unionism. As other authors also mention, unions are highly concentrated among large monopolistic firms in Korea, and their efforts to raise wages have effectively reduced the number of available jobs in high wage sectors. Moreover, their strong opposition to layoffs of union members has only biased firms' hiring decisions in favor of more non-regular jobs and fewer new hiring of young workers. Unions do not appear to have contributed to wage equality, and if they had any contribution to labor relations, they have widened wage dispersion. However, it is not clear whether unions have contributed to the increase of productivity in unionized firms.

Several factors are considered to underlie these outcomes. Korea's unionism has rarely been disciplined by market forces as competition lacks in the unionized sectors. Prolonged strikes and lockouts have persisted because they had gone unpunished in the market. Large unionized firms have possessed monopsonistic powers in intermediate product markets as well, as many small and medium-size firms compete for subcontracts from large firms. High union wages in large firms tend to lower subcontract prices for smaller firms, and non-union workers in those subcontracted small firms have suffered lower wages. Politically motivated intervention of the government in industrial relations has also resulted in boosting the power of both large firms and their unions, effectively helping them to protect their own interests while the outsiders' interests were left at the mercy of large firm actors. Dae-Il Kim, while focusing on the labor market effects of Korean unionism and the decentralized bargaining regime, adds flesh to Changwon Lee's arguments.

Hyorae Cho's study focuses on two questions. Why do unions opt for militant strategies instead of collaborative strategies, and why

Korean unions appear to be self-interested, focusing only on instrumental servicing of current union members rather than taking more solidaristic approach that would affect the working class nation-wide (Cho calls this coupling of instrumental and militant unionism “militant economism”). The second question is particularly puzzling, given that Korean unions did start with a broad social and political agenda during the fight against authoritarianism just 15 years ago.

In order to explain the origin and development of militant economism, Cho focuses on three explanatory variables, which are the politics of production, internal union politics, and the shifting demographics of large firm workers. Cho defines politics of production as the interaction of three key features in union activities—shopfloor power of labor unions, the strategic orientations of these unions, and the employer’s policies about unionization. Strategic orientations of various enterprise unions differed in terms of their orientation towards solidarity which refers to building of a stronger and broader labor movement, an orientation towards re-distributing economic gain to members and an orientation towards labor management collaboration. The different orientations of each union interacted with employers’ policies which could be either exclusive and confrontational as in the case of Hyundai, inclusive such as that of LG, or complete denial or union existence as in the case of Samsung and Posco. These interactions produced differing patterns of union activities and outcome, depending on whether they occurred under conditions of strong shopfloor power of unions or weak shopfloor power.

Thus, the interaction of these three key features produces a variety of different union actions. In general, where shop-floor organizational power of union was strong and employers took an exclusive strategy against unions, unions usually exhibited various intensity of militancy depending on their orientation. In the case of a more inclusive employer strategy, however, strong unions either tried to develop an industry-wide bargaining model if their leadership was solidarity oriented or followed the so-called micro-corporatism model if they were re-distribution oriented. In situations where the shop floor power of unions was weak, an exclusive and confrontational manage-

ment strategy forced solidarity oriented unions to retreat and take collaborative approach. Under a more inclusive employer strategy, all unions accepted some form of collaboration.

Eul-Teo Lee tackles the question of militancy of Korean labor by taking the changing human resource management practices in large companies as the key investigative angle. In his study, Lee develops a model that draws a causal link between human resources practices and union membership build-up and union militancy. Lee's unique contribution to the research the determinants of militancy is the revealing of the strong association between HRM practices and the rise and fall in union militancy during the last two decades in Korea.

In particular, Lee suggests that during the period before 1987, when there was heavy government control over industrial relations, employers practiced a highly limited Tayloristic personnel management approach. After the democratization, however, workers, seeing the inequity in corporate HRM approaches, evidenced by the wide wage gap between blue and white collar employees, joined unions in large numbers and also resorted to militant strategies to win wage increases. Wage increases were the single most important cause of strikes during the late 1980s and early 1990s. However, during the early 1990s and until 1996, union militancy significantly subsided, according to Lee, as a result of a general changes in HRM policies including improvement in working conditions and fringe benefits, more participative HRM in large firms, more selective hiring practices using referral systems to reduce the number of workers prone to militant action, i.e., in other words, due to a more inclusive and caring HR practices in many large companies. However, after the Asian financial crisis, human resource practices have gone through substantial changes once again.

Soonwon Kwon focuses his analysis on the linkages between corporate governance in large firms and employment relations. Essentially, he differentiates and categorizes American, Japanese and Korean corporate systems, based on three dimensions, which are the structure of ownership, sharing and markets. As Kwon argues, American corporate governance is characterized by the separation of ownership and

management, with shareholders exerting considerable power in a highly liberalized market environment. Japanese corporations are characterized by the interlocking directorates of the Keiretsu system, and tend to be owned by other Japanese corporations within the Keiretsu system. Korean corporations, on the other hand, are generally owned by the founding family and also run by them.

Soonwon Kwon's main argument is that models of corporate governance are linked to employment relations features, although his model does not attempt to make predictions. He examines several interesting measures of corporate governance such as concern for business prosperity, stakeholder value orientations, whether there are directors from amongst employees and several measures of employment relations such as internal promotion, long term employment, enterprise unionism, seniority based wages models and firm specific skill systems. Kwon assigns values to each of these factors using informed judgment on a continuum of a positive, neutral, or negative extent to which these factors are consistent with the corporate governance model. Based on the resulting aggregate values, Kwon finds that there is a high degree of complementarity between corporate governance measures and labor relations characteristics in both the United States and Japan, but not in Korea.

Kwon argues that this low complementarity between governance structure and labor relations characteristics in Korea is mainly responsible for the mutual antagonism between Korean employers and workers. For example, the monopolistic structure of owner-managed large firms breeds greater bargaining capacity and antagonistic attitudes to both employers and employees, resulting in confrontation. Enterprise level strike rates are normally higher in large firms in Korea. The reason for high strike rates is that the authoritarian governance structure of Korean firms does not offer a mechanism for stakeholder influence in profit-sharing decision-making processes, and thus alienating workers. Furthermore, the authoritarian structure leaves lower level employees or line managers with very little room to devise specific industrial relations and human resource strategies suited to their particular and local business environments. Finally, given the highly developed

owner-property model of corporate governance, Korean employers tend to view employees as servants who should not participate in decision making as it interferes with the “property rights” of the owners.

Heiwon Kwon and Hyunji Kwon’s study focuses on the unexpected growth of the number of “non-standard” workforce in Korea. By nonstandard, the authors mean the growing number of casual, contract, and temporary labor force in Korea. In seeking to explain the growth of nonstandard workforce in Korea, the authors take up case studies of two industries, banking and automobiles. They closely examine several firms in both industries. They examine why large firms have increased the hiring of “nonstandard” workforce in recent years, union responses to these actions by large firms, and the outcomes in terms of the growth in nonstandard workforce.

In general, the authors argue that both banking and automobile industries have been under great pressure since the early 1990s to reduce costs and increase flexibility. However, the relative importance of these two variables differed for the sampled industries, and the pace at which re-structuring occurred also varied, showing a significant increase after the financial crisis, and that union responses to restructuring also varied across industry and across time.

Regardless of whether the need for flexibility or the need to reduce costs was more or less important in the two sampled industries, what is clear is that they are highly inter-related. Kwon and Kwon also argue that, in general, employers have succeeded in “destroying and re-creating” internal labor markets in the two industries. The outcome of reformulation of internal labor market has been a creation of what Kwon and Kwon call a “multi-tiered segmentation” in the labor market into various levels of regular and non-regular workers. The segmentation was more varied in the auto industry.

Despite the differences in employer motivations and in the types of nonstandard employment, they found that similar responses of regular workers’ unions to the restructuring process reinforced the within-firm labor market segmentation in both cases. The empirical evidences show a strong demarcation between core employment system and contingent system in both industries. The most conspicuous

outcome of the restructuring processes in the two industries was aggravated wage inequality.

Harry Katz and Soonwon Kwon focus on union density and observe the changes over time. They conclude that the decline in unionization is closely linked to the decline of the manufacturing sector, increases in the service sector, and the increases in contingent employment, particularly of women. They do, however, note that the unionization level in large firms remained surprisingly steady even during the Asian Financial Crisis, fluctuating between 30% and 40%, and these variations appear to be associated with internal factors such as the firm's business cycle issues than external factors.

With regard to the bargaining structure, Kwon and Katz draw a more pessimistic picture than the often mentioned argument that bargaining structure is actually recentralizing at the industry level. There has been some progress towards industry level bargaining, to be sure, but this has happened only in the Health and metal-working sector. Moreover, further progress is not likely to come soon, because Korean unions are poorly organized and opposed to industry level bargaining. Even in the metal working industry, several big enterprise unions which should be taking an active role in industry-wide union movements have not yet relinquished bargaining rights to industrial union counterparts. Further, they argue that the evidence actually supports increased decentralization. One bit of evidence is the decline in unions. The second evidence is the changes in collective bargaining outcomes that clearly point to much higher employer bargaining power, and the third evidence is increased diversification of corporate structure coupled with an enterprise based unions who are not willing to join industry federations.

Katz and Kwon show that lack of agreement or a high degree of competition between union federations also increases conflict, negatively affecting union organizing as well as a business performance. Notably, union militancy significantly impacts firm business performance based on a measure of value-added among the top 30 *chaebols*.

In sum, despite the different empirical interests and methodological approaches, chapters in this volume have shared the view that


the current state of industrial relations in Korea, which is dominated by large-size firms and characterized by and the militant, politicized, and confrontational enterprise industrial relations, is in a dire need of reform.

Especially, the growingly entrenched selfish business unionism combined with large firm monopoly status is highly problematic in that they are losing their social base and legitimacy which stem from the democratization movement. Because large firm unions have built their tentative industrial peace within firms by disregarding their solidarity with workers in medium and small firms as well as nonstandard workers, they failed to establish sound and sustainable stability in industrial relations, and the confrontational tensions between employers and unions in large firms still remain despite the reduction in number of strikes.

These chapters have clearly shown that large firm industrial relations in Korea seem to be at a critical historical juncture. Ever since the Asian Financial Crisis, employers appear to be clearly focused on destroying the traditional strong internal labor market model, and they are achieving their goal without much difficulty. However, the responses from both unions and government have been unclear and inconsistent. What the studies in this volume speak in unison is that it is not late for unions and government to come up with carefully considered responses to the challenges they are facing. These carefully crafted responses have the potential to re-shape the structure of industrial relations in Korea and prepare Korean firms for the new global economy.

PART I

OVERVIEW

- 
- 1 Labor and Management Relations in Large Enterprises in Korea: Exploring the Puzzle of Confrontational Enterprise-Based Industrial Relations

Chapter 1

Labor and Management Relations in Large Enterprises in Korea: Exploring the Puzzle of Confrontational Enterprise-Based Industrial Relations

Changwon Lee*

1. Introduction

The most conspicuous characteristics of Korea's modern trade union movement and industrial relations are: 1) persistent development of enterprise-based unionism, which is not common in advanced and newly industrialized countries, 2) a militant labor movement, and 3) confrontational industrial relations, led mainly by large companies.

These characteristics emerged as a by-product of the rapid process of industrialization during the last half century, and they are clearly distinguishable from the cooperative enterprise-based industrial relations of Japan, which went through a very similar industrialization process (Dore, 1973; Cole, 1979). Enterprise-based trade unions in Japan have not always functioned cooperatively. In fact, the unions have often acted in contradictory and ambivalent manner to protect their members' interests when their interests are not in line with the companies' interests. Yet, in general, they have actively cooperated with the management toward improving mutual gains (Shirai, 1983).

Enterprise-based unions in Korea, compared with the generally cooperative behavior of Japanese trade unions, are highly pronounced in

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their confrontational stance, and such confrontational relations are often found in large companies. What makes the story more puzzling is that large Korean companies have traditionally provided their employees with very stable employment and exceptional wage increases amid continuous revenue growth backed by their monopolistic market position and export growth. So, one may wonder why there exist such high level of conflicts between the managements and unions of large firms,

One of the reasons, especially in comparison with other countries, is that Korean labor movement has developed not just to protect the workers' rights in industrial relations, but also to promote the social justice of the working class. This is similar to the situation in Brazil, Mexico, South Africa, and the Philippines, where the labor movement has come to be understood within the context of the whole society, not merely within the arena of labor-management relations. It must be regarded as a civil movement, in contrast to the "business unionism" of the U.S. (Johnston, 2001).

However, though the labor movement in Korea has rapidly expanded since 1987 buttressed by the national democratic movement and has strengthened its militant characteristics in bargaining for wage increases, it has largely failed to become a major political force. It is no exaggeration to say that the decade since 1987 has been almost exclusively spent on improving bargaining power at the enterprise level (Lee and Lee, 2004). This is where our attention is drawn. We want to investigate the strategic factors used by trade unions of large companies since 1987 to ensure their bargaining power.

Union movements grew explosively, boosted by the democratization movement that started in June 1987. The number of unit unions, numbering only 2,700 in June 1987, increased to 7,800 with 1.93 million members in just two years. However, since 1990, the membership continued to dwindle throughout the decade reaching just 1.14 million in 1998. There are two reasons behind the decline of membership. First, the union movement of small and medium enterprises (SMEs) has significantly weakened in the 1990s when the movement base has become seriously eroded due to business constraints that resulted in suspensions and shutdowns. Secondly, the number of regular workers eligible for union membership greatly decreased (Lee, 2003). The number of union

membership has recovered to around 1.26 million in 2002, but large companies continued to lead the union movement. This is indicated by the fact that as of the end of 2001, the number of large-scale unions with 500 or more union members was 417 or 6.8% of the total number of unions, while their members numbered 1.15 million or 73.5% of the total population of unionized workers.

Thus, Korea has come to be known for its trade unions centered in large companies, its militant industrial relations, and its “world’s worst” title in terms of conflicts between labor and management, according to the ranking by the Institute for Management Development (IMD). In its 2003 Annual World Competitiveness Report, the IMD gave Korea’s industrial relations the 60th place, the lowest among 60 countries, after it was recorded as 43rd among 49 countries in 1998, 46th in 1999, 44th in 2000, 46th in 2001, and 47th in 2002 (See Table 1-1).

The IMD index, though based only on the assessments by businesses, undeniably shows that industrial relations in Korea are a very strong deterrent undermining the national competitiveness in the era of

TABLE 1-1 INTERNATIONAL COMPARISON OF COOPERATIVE INDUSTRIAL RELATIONS

Ranking	Country	
1	Singapore	8.52
2	Denmark	8.45
3	Switzerland	8.29
4	Austria	8.07
5	Japan	7.92
6	Iceland	7.92
7	Zhejiang	7.89
8	Malaysia	7.84
9	Hong Kong	7.84
10	Finland	7.82
51	Philippines	5.47
52	Ile-De-France	5.44
53	Israel	5.42
54	South Africa	5.42
55	Argentina	5.36
56	France	4.86
57	Venezuela	4.84
58	Poland	4.82
59	Indonesia	4.68
60	Korea	4.00

Source: IMD World Competitiveness Report 2004.

global economy. The main reason for the notoriety of the country's confrontational industrial relations is found in its unusually high frequency of industrial disputes. The National Competitiveness Report by IPS, which compares the actual numbers of working days lost due to industrial disputes, shows that industrial disputes in Korea are at a comparatively higher level (See Table 1-2).

TABLE 1-2 LABOR DISPUTE WORKING DAYS LOST PER 1,000 INHABITANTS

Rank	Country	Index	Days
1	Singapore	100.00	0.00
2	China	100.00	0.00
3	Pakistan	100.00	0.00
4	Brazil	100.00	0.01
5	Venezuela	100.00	0.01
6	Egypt	100.00	0.02
7	Sweden	100.00	0.03
8	Colombia	100.00	0.10
9	Germany	99.99	0.13
10	Hong Kong	99.99	0.14
41	Sri Lanka	99.28	15.48
42	Denmark	98.92	23.33
43	Australia	98.88	24.20
44	Romania	98.83	25.25
45	Ireland	98.82	25.32
46	Taiwan	98.31	36.41
47	Korea	98.15	39.75
48	Israel	97.85	46.32
49	Finland	97.73	48.94
50	Canada	97.51	53.55
51	United States	96.66	71.91
52	South Africa	95.88	88.65
53	Spain	95.75	91.75
54	Norway	94.89	10.988
55	Argentina	92.17	168.50
56	Nigeria	0.00	2152.30

Source: IPS National Competitiveness Report, 2004.

Table 1-3 compares yearly changes in OECD countries' actual number of working days lost due to industrial disputes in recent years. Canada has the highest number of days lost to disputes,¹⁾ followed by Italy and Korea. Japan and Germany, with similar industrial characteristics as Korea in terms of the proportion of manufacturing industries within the whole economy, have remarkably low levels of industrial disputes. The U.K. and the U.S., which are often characterized as having

TABLE 1-3 INTERNATIONAL COMPARISON OF YEARLY CHANGES IN INDUSTRIAL DISPUTES: ALL INDUSTRIES, WORKING DAYS LOST PER 1,000 INHABITANTS¹⁾

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	Average ²⁾		
												1993 ~1997	1998 ~2002	1993 ~2002
Australia	100	76	79	131	77	72	88	61	50	32		93	60	75
Canada	132	137	133	280	296	196	190	125	162	218		197	178	187
France	48	39	300	57	42	51	63	114	82	NA		98	NA	NA
Germany	18	7	8	3	2	1	2	0	1	10		8	3	5
Italy	236	238	65	137	84	40	62	59	67	311		152	110	131
Japan	2	2	1	1	2	2	2	1	1	0	90	2	1	1
Korea ³⁾	110	119	30	68	33	118	108	142	79	111		71	112	92
Sweden	54	15	177	17	7	0	22	0	3	0		54	5	29
U.K.	30	13	18	55	10	11	10	20	20	51		25	23	24
U.S.	36	45	51	42	38	42	16	163	9	5		42	47	45
OECD	48	61	77	51	41	46	29	90	29	51		56	49	52

Notes: 1) "inhabitants" means those employed; a few numbers are estimates.

2) The annual averages of years for which data was available were weighted by the number of employed.

3) For Korea, data from the Ministry of Labor and "Economically Active Population" were used.

"NA" means "no data available."

Sources: Monger, J. (2004) "International comparisons of labour disputes in 2002," *Labour Market Trends*, April, p. 146.

Annual Data from the Ministry of Labor.

"Economically Active Population," the National Statistics Office.

confrontational industrial relations, show much lower level of industrial disputes than Korea. From a comparative perspective, while the number of disputes has generally decreased in most countries since 1998, Korea stands out with the number of disputes increasing sharply after the financial crisis of 1997.

Looking at the data, following questions can be posed: where did the trade-union militancy and the confrontational nature of industrial relations in Korea come from? Why are these characteristics found in industrial relations at large enterprises that provide stable employment and enjoy monopolistic market positions? Based on the premise that solving these questions is the purpose of this study, the following section will focus on the development process of enterprise-based industrial relations and militancy as a strategic choice of the Korean labor movement.

2. Development Process of Enterprise-based Labor Relations in Korea: Systems and Strategies

The size of the labor market in Korea expanded significantly in the process of economic development. Two of the notable characteristics of the Korean labor market that are most often pointed out are the very high turnover of the workforce and the difficulties of companies in securing workers needed for their businesses (Eoo, 1992; Park, 1992). Usually, rapid expansion of the labor market amid fast-paced economic development raises the rate of worker turnover due to the large-scale supply of jobs. However, given the phases of economic development, the labor turnover in Korea is still relatively higher than in other countries of comparable conditions. This is evidenced by the fact that the average years of service of Korean workers between 1979 and 1989 were much lower than those of Japan, which had already experienced industrialization from 1960 to 1970 (Park, 1992).

Another notable fact about the Korean labor market is that there was no difference in wage levels between SMEs and large companies in Korea until the mid-1980s, with human capital controlled, and that workers moved relatively freely between the two sectors (Jeong, 1991; Koo, 1990; Song, 1991). The main reason behind this is found in Korean companies' pursuance of mass production methods based on simple and general technologies (Song, 1991: 220-221). Moreover, the government's provision of a large number of semi-skilled workers to companies through directly operated vocational training centers, and its control over the labor movement and the wage levels of large companies, resulted in a relatively monotonous and stable labor market with small gaps in terms of turnover and wage levels between companies of different sizes (Steers et al., 1989; Bognanno, 1988; Kim, 1988).

The Korean labor market started to show a sign of segregation from 1987, as wage increases and improvements in employment conditions were achieved at large companies through large-scale industrial disputes. The ratio of average wage between large companies with 500 or more employees and small ones with fewer than 99 employees increased to 122.5:100 in 1990 from 102.9:100 in 1987.

The difference is affected by the union movement, which exploded from 1987; or, to put it differently, it reflects the concentration of gains made by the union movement at large companies since the eruption of the labor movement. The long period of control over the labor movement by the government under military regimes and their recognition only of enterprise-based companies before 1987 somehow opened the path towards a segregated labor movement and industrial relations centered on large companies. However, considering that it clearly had rooms to move away from the enterprise-based labor movement to a more concentrated union structure or industrial relations, the Korean labor movement must have made strategic choices to remain at the enterprise level while the democratic movement was flaring in politics and society.

In other words, the changes in the environment toward a democratic society should not be considered a direct factor determining the characteristics of industrial relations. The way employers use such changes in the market environment strategically, and the way trade unions utilize the political environment for their strategies are what determines industrial relations. The main actors in industrial relations, faced with opportunities and pressures brought about by changes in the environment, made strategic choices amid many restrictions. According to the theory of strategic choices, the results of their choices are expressed as characteristics of the industrial relations (Meltz, 1985:315-334). This theory explains changes in industrial relations as a result of interactions between outside pressures and philosophy, values, and strategies of organizational actors at various levels of organizations (Kochan, Katz and McKersie, 1986).

From the viewpoint of this theory, large companies with monopolistic status guaranteed by the authoritarian regimes before 1987 saw the privileges, protection and regulations of the government against inter-company competition gave way to a principle of competition among large companies within the market, and made the choice to deal with issues of industrial relations inwardly. They opted for more effective stability of business management by minimizing the influence of industry-wide and central-level industrial relations (as opposed to company

level), and creating an internal labor market to realize employment stability and wage increases at the enterprise level.

Meanwhile, trade unions at large companies pushed the growth of trade unions as part of the social movement during the initial stages of the new political environment called “democratic society.” However, they came to realize that enterprise-based labor relations could be more effective in collecting the due wages-unpaid even in the monopolistic context. Moreover, they believed that the labor market inside their companies and the new system of collective bargaining could sufficiently provide both economic gains and support for the causes of union movement.

Ultimately, the trade unions of large companies in Korea chose decentralized, enterprise-based labor relations when given the strategic choice in the new environment after 1987. However, the unexpected outcome of that choice was that it led to frequent strikes and nearly constant conflicts during the following decade, instead of the kind of flexible and cooperative industrial relations commonly found in decentralized labor relations. This is explained ? and will be discussed in the next section - as a result of the politicization of industrial relations, whereby enterprise-level labor relations were not developed as responses to the market environment, but rather as adjustments of different interests between labor and company management that were dependent on politics. What this phenomenon means is that while industrial relations at large companies in Korea since 1987 have outwardly appeared to be similar to the development process of industrial relations in advanced countries, inwardly, they have progressed in a totally different way.

In recent years, industrial relations in advanced countries are changing significantly. Above all, in terms of where industrial relation is going, there is an active movement toward greater flexibility in labor relations at the company level, directing the focus of labor and management to more micro-level matters. The decline of trade unions has become visible, driving attempts to find a new type of industrial relations at the enterprise level. Innovative production organizations and participation of workers in the process of production have been initiated by companies. High-performance systems based on the technological

development of workers are being established as a mainstream of industrial relations in advanced countries (Locke et al., 1995; Appelbaum and Batt, 1994).

In the U.S., until the mid 1980s, business management strategies resorted to mass production and price competition, disregarding the role of human resources. Consequently, workers were dependent on strong unions to protect their interests and concentrate their capacity on bargaining for distribution (Bluestone and Bluestone, 1992). The new economic environment of the 1980s, however, changed the goal of union movement to some extent, from a distribution-oriented to a production-focused principle (Freeman and Medoff, 1984; Kochan, Katz, and McKersie, 1986; Hecksher, 1988).

Employers' strategies are definitely a critical factor moving the focus of industrial relations. However, the responsive strategies of the labor movement are an equally important factor in shaping industrial relations. Changes towards decentralized labor movement will be possible only through the response of the labor movement to the shifting focus of industrial relations, or through the results of the shift itself. Decentralization of labor movement is expressed into two aspects. Under the first aspect, the consolidation of the union movement at the national level will be weakened but the independence of subsidiary organizations will increase (Baglioni, 1990). Usually, the power of a central organization at the national level to control industrial or sectoral unions is being diminished in Western countries (Crouch, 1994:268). On the other hand, working conditions which had been decided at the national or sectoral level are now being decided at the enterprise or workplace level. Certainly, the decentralization of union movement is not a uniform trend in advanced countries. In Norway and Portugal, bargaining structure is being more centralized. In the Netherlands and Italy, decentralization was the dominant trend in the 1980s, but in the 1990s, it was reversed (OECD, 1997). Nevertheless, it is undeniable that decentralization of labor movement and collective bargaining is a general trend in most highly industrialized countries.

It is important to note that decentralization of collective bargaining is manifested quite differently depending on countries and industries. So, it is important to distinguish between organized and disorganized decen-

tralization, and between coordinated and uncoordinated decentralization (Traxler, 1995). The analysis of decentralization trends must include decentralization with coordination, and consider this at the collective bargaining level as well. In this respect, decentralization since 1980 can be divided into disorganized and organized decentralization. The former is found in the U.K., New Zealand, and the U.S., and the latter in Austria, Denmark, and Germany (Traxler, 1995: 3-15).

Then where does Korea stand? Since 1987, labor relations in large companies centered around the issue of distribution, and were rarely interested in the paradigm of the high-performance workplace. Labor movement and collective bargaining have developed towards disorganized decentralization from their inception. Nowadays, though there is an effort toward consolidation at some industry-level unions, it still is not attracting enough interest among labor leaders and management at large companies. Trade unions of large companies only come together, though very loosely, when political issues affecting their welfare arise. When they are dealing with issues of wages or working conditions at the industry or central level, they remain disaggregated. To make matters worse, the union movement in Korea has experienced a second wave of decentralization, whereby the group consolidation and continuation are diluted through the formation of different factions within their organizations and the grouping or dismembering among themselves during the process of developing into enterprise unit trade unions since 1987.

In summary, labor and management relations and union movement at large companies since 1987 has developed enterprise-level industrial relations in terms of the structure of the system, but failed to take advantage of the decentralization by building flexible and cooperative industrial relations in strategic terms. As time progressed, labor and management at large companies became used to the strategies of putting pressure on each other rather than coordinating their mutual interests. Union movement also resulted in a second decentralization, where the factions of trade unions, rather than the hard work to provide an adjusted system beyond the enterprise level, became the force for change in the lines of the unions.

The main culprit of such abnormalities is the uncompromising nature of strategies by both labor and management, under which militant

political actions are employed to resolve the conflicts of interest, notwithstanding the specific issues between employees and employers of individual companies. The following section will discuss the reasons as to why the labor and management at large companies have taken the uncompromising course of politicization.

3. Growth of *Chaebol* and Democratic Labor Movement: Twins of Politicization

The Korean economy developed rapidly from the mid 1960s to the mid 1990s, as illustrated by the 9% average GNP growth rate during that time, and the high rate of growth has more or less been maintained until now. Two notable aspects of this breakneck development have been the remarkable growth of the private-sector economy, though backed by the active intervention of the state, and the control of the economy by a few chaebol.

Though there is no existing categorization of business types in which Korean chaebol fall under, chaebols are similar to the corporate groups of Japan. However, in contrast to their Japanese counterparts, they are directly operated by owners and their families, and established business groups networked through financial institutions. Chaebol is a large-scale business group developed under the sponsorship of the nation and directly operated and controlled by owners and their families.

The particular background contributing to the rapid development of chaebol during the industrialization process included several elements. For one thing, the pillar of economic development during the last several decades has been the export-oriented industrialization led by the government. From the early stage of the economic development, Korean government intensely supported and nurtured large companies through its exports-first policy; and to this end, it provided favors related to exports and imports, loans, and various tax breaks to the chaebol (Chang, 1991; Jones and Sakong, 1980; Hamilton and Biggart, 1988).

Secondly, the chaebols were able to minimize failure in the market through the practice of mutual investment and through diversifying

their businesses to unrelated industries (Cheong and Yang, 1992). The majority of the 30 largest chaebols in Korea are engaged in a number of diverse sectors, not only in manufacturing but in a vast array of other sectors such as trade, distribution, construction, banking, and transportation. This expansive array of businesses is interconnected and brought together under the direct control of the owners.

The government's direct and indirect assistance to the chaebol's business activities, and owners' direct control over their various activities in the market, have resulted in the chaebols having the least professionalized business structures. The need for the division between ownership and business management, characteristic of the growth of large companies in modern times (Chandler, 1977), did not emerge as a priority in Korea.

Due to the high risk of failure in the market, to some extent, the chaebol owners could not help managing and controlling their companies as a family matter without depending on professional managers. In a situation where informal and sometimes illegal transactions with the government were key to the growth of companies, and where secret mechanisms had to be maintained to secure management rights in the business group, they needed to fill the upper ladders of the companies with family members and associates who would guarantee a mutual trust (Shin and Chin, 1989; Kim, 1992).

This background on how chaebol and their affiliates developed provides a clue as to why they dealt with labor relations in a particular manner. For the most part, top managers-chaebol owners, their families and associates-did not have to make innovative industrial relations and high-performance workplaces their priority goals in business management. Negotiating with or persuading trade unions was a waste of energy; and even performance was a matter of no little importance, because company growth, mergers & acquisitions, and even success or failure itself were determined by the environment outside of the market. Consequently, the interest of chief executive officers was focused on political deals.

At the same time, union participation in business management and democratization of corporate organization were more than just important variables influencing management performance. The voices of trade

unions were a matter of concern because they could threaten the maintenance of the current ownership structure or lead to the exposure of business secrets that companies needed to keep. Thus, the chaebol moved to preempt or quell the voices before they grew, except for wage demands. As a result, the functions of collective bargaining were limited to increasing the wage level, and corporate social responsibility and business innovation were exempted as subjects of bargaining. Many large-company managers abhorred the existence of trade unions or their expanded influence not for the reason of their negative effects on company productivity but because they were a force threatening the controlling power of management.

As such, the role of trade unions demanded by the companies was to focus on wage increases and to restrain themselves from raising their voices on other issues. Such demands appeared to be accepted by the trade unions, whose responsive strategies were matched to the strategies of the companies. Large company trade unions in Korea formally played this role from 1987 on. To be clear, however, the trade unions of large companies and their umbrella unions did raise many important issues in the process of political democratization and struggle for social reform. However, these attempts were diluted to some degree the negative impressions caused by the monopolistic position of the unions with regard to wages and welfare. However, one issue that continued to be pointed out most strongly by trade unions of large companies was the outdated model of “ownership management,” which served as the best leverage by which the trade unions could put pressure on employers. Employers could not easily control the unions when they kept raising their voices on ownership management as the source of many issues between labor and management.

The state-led economic development, the authoritarian control over the labor movement, and the government’s interventions in industrial relations were unarguably behind the politicization after 1987 of the labor movement at large companies (Lee, 2000; Kang, 1998). Despite the effects of this politicization, the union movement in the 1990s, based on enterprises, bore fruit in the form of wages and benefits at the enterprise level, while neglecting preparations for social reforms or macroeconomic adjustment.

For that matter, some argue that the labor movement in Korea in the late 1990s was isolated at horizontal, vertical, and societal levels. They were isolated at horizontal level because of their fragmentation and failure to achieve solidarity among workers. They were also isolated at vertical level because their objective was compromised by capitalists and lost their independence. Lastly, they were isolated at the societal level because of the marginalization of the labor movement (Kim, 1993:239). Politicization was expressed as militant labor movement, while the bargaining structure and union system at the enterprise level remained unchanged. Employers lacked either cause or determination to suppress militant trade unions' actions inside companies, which means that both labor and management have played political games.

How are political deals made between labor and management? First of all, trade unions send signals to employers through strikes. The strategy of "first strikes, then negotiations" has led of frequent and often illegal strikes. The logic behind such high frequency of strikes is that it will be more effective for unions to push the employer into corner by elevating what they want as social issues rather than talking with the employer.

The idea that trade unions bring about wage increases has already become an established theory (Freeman and Medoff, 1984). However, different opinions exist on the strategies as to how unions induce wage increases. Wage increases have the effect of winning support for the "labor market inside the companies" from trade unions, but it is clear that strikes by trade unions are a valuable means to raise wages. Conventional wisdom tells us that strikes for the purpose of wage increase are a basic strategy that trade unions will resort to. Nevertheless, a school of Neo-classical economics including Hicks tends to regard strikes as an unreasonable choice (Hicks, 1963; Reder and Neumann, 1980). They believe that reasonable negotiating partners, considering costs and damages of strikes, can settle on the wage level before strikes happen.

Then, how should strikes for social and political purposes be understood? Some critics point out that labor movement fascinated by the power to control the workplace and driven by social issues will disperse the capacity of trade unions to focus on wage increases, making it difficult to deliver the reasonable wage increases that the members desire

(Cochran, 1977). In fact, the wage issue has been singled out by many to explain strikes in advanced industrialized society (Edwards, 1981; Shorter and Tilly, 1974; Walsh, 1983). Few attempts, however, have been made to explain why trade unions bear the costs of strikes by launching strikes driven by political and social issues instead of strikes confined to the wage issue and other issues that are directly beneficial. According to neo-classical or institutional theories, strikes for purposes other than wage increases have been regarded as unintended or uncontrolled collective action not strategically chosen by trade unions, or as the result of the failure of reasonable bargaining.

According to theories explaining the politicized strike structure, the best strategy of the labor movement is to have more strikes. Whether that type of strike succeeded or failed, or what issues the strike upheld is not important. What is important is simply to have a large number of strikes. Frequent strikes will send the message to the other bargaining party that workers are very much interested in the strikes themselves until their demand is met regardless of the cost (Cohn, 1993). This theory supports the arguments of Piven and Cloward (1977), who posit that frequent social disruption by the poor class will guarantee redistribution of wealth from the upper class.

Though the theories arguing for the usefulness of economically practical labor movement hold that the concentrated attention of trade unions on social issues will result in deterring the trade unions from achieving their ultimate objective of monetary gains, there is no evidence that social issues and monetary gains are completely unrelated. In fact, strikes by trade unions over issues of working-hour reduction or industrial safety often led to high wage increases with little improvement regarding the issues on table. In a word, union movement for political purposes and its show of militancy using strikes has been a very useful strategy for achieving economic gains.

Strikes were good leverage to raise the political status of labor movement in the society. They were an effective means to break the control over the labor movement by the authoritarian government that abhorred strikes, and to achieve a democratic society. Government policy before 1987 banned any “destructive” action, and the policy was successful in minimizing the number of such actions, with some side

effects. The drawback of the policy was the huge impact of labor disputes that might have amounted to nothing in a situation with less or no control on policy makers as well as the general public. The more state officials tried to minimize disputes, the bigger the impact became on politics and society. Labor disputes were often considered as indices pointing to the state of crisis in overall industrial relations, and induced government officials take immediate actions such as providing new policies or laws with a view of preventing the recurrence of similar types of disputes (Choi, 1988:281-282).

Enterprise-based labor movement with politicized lines was closely aligned with politicized movement at upper and lower levels, and thus often expanded and reproduced. At the upper level was the Korean Confederation of Trade Unions (KCTU), which emerged in the 1990s, and at the lower level there were factions or workplace organizations developed within the enterprise-based unions.

The union movement at large companies has been closely related to the democratic labor movement, which began in earnest in 1987. The fact that most trade unions of large companies belong to the KCTU, and not the Federation of Korean Trade Unions (FKTU) that existed prior to 1987, shows that the strategies of large company trade unions are in compliance with the policy lines of KCTU.

The policy lines set by FKTU are tilted toward economic unionism in the broader context. Its movement methods are based on economic struggle including collective bargaining, and when necessary it has actively participated in national decision-making processes. In contrast, KCTU's movement lines reject cooperation between labor and management, target social reforms, and prioritize the integration of economic and political struggle (Kang, 1998). For KCTU, comprised mainly of large companies and the public sector, strikes are considered as an effective means through which democratic movement will develop and monopolistic gains of large company managements will be distributed through wages, and also as an important engine of organizational growth.

It is an irony that the confrontational, militant labor movement of KCTU, having emerged as an alternative to the traditional labor movement of FKTU, has made it possible for the existing enterprise-based union structure and the labor market inside companies to remain.

Though KCTU set the establishment of an industry-level union system as an ultimate goal, it maintained the labor market structure at the enterprise level and focused on the struggle to achieve the three basic labor rights. As KCTU movement was mobilized, its recognition by the government became a fundamental issue. Other related issues have surfaced at the same time are the prohibition of multiple unions and third-party intervention, and the scope of essential public services.

Different from the lines of KCTU at the upper level, informal workplace organizations at the lower level became strongly segregated, turning enterprise-based unions into a battleground between the organizations. Such informal workplace units were directed by the movement of the Committee to Pursue Democratic Unions with an objective of stopping trade unions from becoming bureaucratic or yellow unions. Their function of preventing labor unions from becoming bureaucratic organization and resist the domination of capitalists over labor is becoming more and more important. With the increase of their influence, the need for better organization of these workplace units also emerged.

The democratic labor movement that lasted from late 1987 to the early 1990s, led to the solidifying of "workplace organizations" by labor activists at unit workplaces. These activists continued to lead strikes, accumulating achievements that would benefit the democratic operation of trade unions. These workplace organizations have held nationwide gatherings since the late 1990s. They are developing in an ongoing situation of cooperation, tension and conflict with executives of trade unions, depending on particular political lines and policies.

The workplace units, which started as a check-and-balance against union executives, have reshaped themselves since democratic executives took office. Especially in the case of large-scale factories, as the union movement was being revitalized, workplace activists were growing in large numbers. Some of them were self-taught activists, but others were trained in alliance with student activists.

In the case of the Hyundai Motors Company Union, which is one of the most representative large-enterprise unions of Korea, there are more than 10 affiliated field organizations with more than 1,000 total members. When a decision is made at the representatives' assembly, the existence of more than 1,000 union activists is a great force as far as the

union is concerned (Jin, 2004). On the other hand, from the perspective of the company, field activists are threats, as they are a force capable of stirring up the workers' opinion and atmosphere in the field. However, the limitation of such field organizations is that they are buried in the internal activity of the corporation. The power within a company is limited to the union executives and representatives. Popular leaders, who rose through in-company activity, have no choice but to run for union officials in order to engage in political activity. This caused overheated and excessively competitive elections for the union president and representative positions.

As a result, the enterprise-based unions of Korea have continuously received demands to reproduce political lines, under the controls and connections from above and below. The main officials and activists of KCTU are linked not just by structure, but also by human connections to the officials of enterprise-based unions. Moreover, the union officials and executives have either very close connections with the various factions or are influenced by them. Thus, the structural arrangement of unions makes it hard to maintain the stability as a unit union or consistent leadership.

Under such unstable political lines, the most fundamental means through which a union leadership could receive support from the majority of its members was to win higher wage increases from the employer. This satisfied the interests of the enterprise-based unions and all the connected groups, and in long term, it was the only way that unions could achieve the dual objectives of consolidating the unstable leadership and receiving recognition of its capabilities from the government.

4. Change in Enterprise-based Industrial Relations: Weakening of the Voice and Strengthening of the Monopoly

The so-called '87 labor regime, which effectively attained higher wages by demonstrating its militant and confrontational side, faced a great environmental change due to the structural adjustments that began following the 1997 foreign currency crisis. This produced a sense of cri-

sis and the concern that by maintaining the previous strategy of militancy, workers would lose their face as well as their actual interests. According to a survey that KCTU carried out as part of its efforts to reform its organization in October 2004, targeting officials of central, industry-wide and unit union organizations, 63.6% of the respondents replied that KCTU faced a crisis. At the time, the two major trade union centers of Korea had declared a joint struggle to oppose dispatch work, call for the guarantee of public servants' basic labor rights and block the Korea-Japan FTA. It was a time for elevation of the struggle. Even so, almost two thirds of the respondents considered it a crisis situation.

The unionization rate has been stationary at around 11% to 12% for 7 years since 1997, in spite of the strong determination and efforts by the two major trade union federations and their affiliates to recruit new members. Mobilized struggles such as general strikes or rallies have lacked supports, and their function as "weapons" has been weakened as public opinion turned its back on the union movement. Struggle for social reform also has not been able to trigger either field workers' interest or their anger.

Wage struggle, which was the central axis for the union movement until the mid-1990s became an issue of secondary importance, and the issues of economic crisis and IMF relief, and the unemployment issue has become the primary social concern. Because unions had difficulty in pushing the agenda of employment stability of regular workers forward, they used small and medium enterprises (SMEs) or non-regular workers as a protective barrier to guard their narrow interest. As economic bipolarization deepens, wage gaps between large enterprises and SMEs, and between regular and non-regular jobs are increasing. Even though the labor movement has made closing the gaps as its primary task, no significant advancements have come out so far. It definitely seemed that the democratic voice and influence demonstrated by the unions of large enterprises since 1987 had reached their limits. So, instead, a line of movement that used the monopolistic status of large company unions to its advantage was reinforced.

When it comes to the pattern of disputes, the transition from voice role to monopoly role can be confirmed with data on labor disputes. Labor disputes in Korea increased explosively since 1987, but reached

TABLE 1-4 MAIN LABOR DISPUTE INDICES

	No. of Disputes	No. of Participants	Lost Days of Work
1988	1,873	293,455	5,400,837
1989	1,616	409,134	6,351,443
1990	322	133,916	4,487,151
1991	234	175,089	3,271,334
1992	235	105,034	1,527,612
1993	144	108,577	1,308,326
1994	121	104,339	1,484,368
1995	88	49,717	392,581
1996	85	79,495	892,987
1997	78	43,991	444,720
1998	129	146,065	1,452,096
1999	198	92,026	1,366,281
2000	250	177,969	1,893,563
2001	235	88,548	1,083,079
2002	322	93,859	1,580,404
2003	320	137,241	1,298,663

Original Source: Ministry of Labor.

Source: KLI, 「Monthly Labor Trends for each year」.

stabilization since the '90s. Then, they began to rise again following the economic crisis in 1997 (See Table 1-4). In terms of the number of participants in the disputes, 400,000 participated disputes in 1989, but the number decreased by about one tenth to 40,000 in 1990. Recently the number increased again to around 100,000. In this sense, the period from '95 to '97 was a short but very stable period. This was because the unions could enjoy the negligence of the enterprises, which were managed laxly relying on the economic boom and did not need to exert special efforts for their struggle. This laxity contributed partially to the economic crisis in 1997.

The strike tendency index by year, which is measured by dividing work days lost by number of wage earners (Table 1-5), demonstrates a low strike tendency only from '95 to '97, and a high tendency for strike before and after that period.

If we analyze the cause of labor disputes according to phenomena, following 1987, the main objective of disputes was wage increases, however, after the mid 1990s, the number of disputes concerning other collective agreements exceeded those related to wages. Recently the disputes have been over qualitative issues such as structural adjustment, employment stability, working hours, welfare, etc., rather than simply distribution-related issues (See Table 1-6).

TABLE 1-5 STRIKE TENDENCY BY YEAR

	Days of Work Lost	Wage Earners	Strike Tendency
1988	5,400,837	9,610	562.0
1989	6,351,443	10,390	611.3
1990	4,487,151	10,950	409.8
1991	3,271,334	11,699	279.6
1992	1,527,612	11,910	128.3
1993	1,308,326	11,944	109.5
1994	1,484,368	12,479	119.0
1995	392,581	12,899	30.4
1996	892,987	13,200	67.7
1997	444,720	13,404	33.2
1998	1,452,096	12,296	118.1
1999	1,366,281	12,663	107.9
2000	1,893,563	13,360	141.7
2001	1,083,079	13,659	79.3
2002	1,580,404	14,181	111.4
2003	1,298,663	14,402	90.2

Note: Strike Tendency=(Work Days Lost/Number of Wage Earners) 1000.

Source: Ministry of Labor.

TABLE 1-6 TRENDS OF LABOR DISPUTES BY CAUSE

(Unit : cases)

	Total	Deferred Wage	Wage Increase	Dismissal	Collective Agreement	Other
1990	322	10	167	18	127	
1991	234	5	132	7	90	
1992	235	27	134	4	49	21
1993	144	11	66	1	52	14
1994	121	6	51	3	42	19
1995	88	-	33	1	49	5
1996	85	1	19	-	62	3
1997	78	3	18	-	51	6
1998	129	23	28	3	57	10
1999	198	22	40	-	89	47
2000	250	7	47	2	167	27
2001	235	6	59	-	149	21
2002	322	2	44	8	249	19
2003	320	5	43	3	249	20

Note: The "Other" category includes improvement of working conditions, shortening working time, lay offs, dismissal following company transfers, opposition against receiving voluntary retirees, opposing the "small president system", opposing mergers, personnel transfers, etc. Particularly, in 1990 and 1991, a separate category for "collective bargaining" was not created, resulting in a high proportion of "others."

Source: Internal material of Ministry of Labor, for each year.

Meanwhile, by the size of business, while the rate of disputes in large enterprises, particularly those with 1,000 or employees, have de-

creased, the share of disputes occurring in smaller enterprises with less than 300 employees has increased (See Table 1-7). But when considering the fact that the number of employees of large enterprises is significantly smaller than those of medium-sized enterprises, 40 strikes per year in businesses with 1,000 or more employees is by no means a small number, and the influence is quite large as well.

In terms of solution methods of disputes, while most disputes were solved through labor-management agreements since 1987, recently there has been a tendency that the number of conclusions through mutual agreement has decreased, while the number of voluntary ending of the dispute by unions has increased (Table 1-8). This suggests that many of the strikes were initiated based on unions' unreasonable evaluations and objectives. These unreasonable demands simply end up in self-termination, without mutual agreement between labor and management. Interestingly, more of such withdrawals have been seen in strikes that were carried out for purposes concerning social reform or political objectives, compared to strikes for wage increases.

Mulling over these recent changes, we finally have reasons to hope that a fundamental change that can radically improve Korea's imbalanced industrial relations is in the foreseeable future. The fact that the

TABLE 1-7 INCIDENCE OF STRIKES BY SIZE OF BUSINESS

	Total	Fewer than 100 Employees	100~299	300~999	1000 or More
1988	1379	465(33.7)	448(32.5)	297(21.5)	169(12.3)
1989	1319	498(37.8)	431(32.7)	235(17.8)	155(11.8)
1990	320	84(26.3)	122(38.1)	63(19.7)	51(15.9)
1991	238	43(18.1)	81(34.0)	61(25.6)	53(22.3)
1992	237	64(27.0)	79(33.3)	59(24.9)	35(14.8)
1993	150	28(18.7)	51(34.0)	37(24.7)	34(22.7)
1994	104	26(25.0)	35(33.7)	17(16.3)	26(25.0)
1995	88	22(25.0)	23(26.1)	29(33.0)	14(15.9)
1996	85	14(16.5)	23(27.1)	23(27.1)	25(29.4)
1997	78	19(24.4)	26(33.3)	18(23.1)	15(19.2)
1998	129	27(20.9)	35(27.1)	34(26.4)	33(25.6)
1999	198	44(22.2)	55(27.8)	38(19.2)	61(30.8)
2000	250	75(30.0)	57(22.8)	63(25.2)	55(22.0)
2001	235	82(34.9)	67(28.5)	52(22.1)	34(14.5)
2002	326	107(32.8)	112(34.4)	64(19.6)	43(13.2)
2003	327	101(30.9)	124(37.9)	62(19.0)	40(12.2)

Note: Numbers in () indicate component ratio.

Source: Korea Labor Institute, "Labor Dispute DB".

TABLE 1-8 NUMBER OF DISPUTES BY RESOLUTION METHODS

	Overall	Labor-Management Agreement	Judicial or Administrative Procedure	Voluntary Resolution	Other
1988	1379	1345(97.5)	29(2.1)	0(0.0)	5(0.4)
1989	1319	1257(95.3)	62(4.7)	0(0.0)	0(0.0)
1990	320	230(71.9)	8(2.5)	68(21.3)	14(4.4)
1991	237	176(74.3)	9(3.8)	38(16.0)	14(5.9)
1992	235	161(68.5)	6(2.6)	48(20.4)	20(8.5)
1993	150	131(87.3)	5(3.3)	10(6.7)	4(2.7)
1994	97	61(62.9)	0(0.0)	36(37.1)	0(0.0)
1996	85	84(98.8)	0(0.0)	1(1.2)	0(0.0)
1997	78	55(70.5)	0(0.0)	23(29.5)	0(0.0)
1998	129	82(63.6)	1(0.8)	46(35.7)	0(0.0)
1999	198	150(75.8)	0(0.0)	48(24.2)	0(0.0)
2000	235	189(80.4)	1(0.4)	44(18.7)	1(0.4)
2002	317	236(74.4)	1(0.3)	64(20.2)	16(5.0)
2003	310	201(64.8)	0(0.0)	97(31.3)	12(3.9)

Note: Data for years 1995 and 2001 are unavailable.

Source: KLI, "Labor Dispute DB".

issues of wage hikes, which so far has been the dominant motivation for bargaining and strike, is becoming less important as the cause of industrial action indicates that a soil is ripe for more mature collective bargaining situation that does not involve unilateral strikes. The recent phenomena in which certain unions of large firms engaged in strikes in an attempt to raise the wages to an unreasonably high level faced negative public opinion as well as loss of support even within the labor movement demonstrate that, unlike in the past, society does not want to be bothered with firm-specific issues like wages. It can be said that the newly formed social consensus around wage issues does not tolerate wage issues to be brought out to the societal level, but encourages it to be dealt with between the concerned parties internally. Today in Korea, the issue of wage is establishing itself as a normal industrial relations topic, based on rational negotiation and compromise among the concerned parties.

If conditions for "quiet" compromise on wages are reinforced in the corporate sector, the free strike strategies-including illegal strikes-of the conventional labor movement since 1987 will possibly diminish. The diminishment of confrontational strike, in turn, can open possibilities for the ideals and organizational capability of the labor movement can be diverted to promoting political or social reform. Moreover, in

this process, the large enterprise sector, which has played the leading role since '87, could fall back from the forefront, while the union of non-regular workers and the public sector emerge as the core of the politically motivated strike movement.

However, even if the militancy and tough political line are weakening, as long as the bipolarized structure of large enterprises and small and medium enterprises (SMEs) remain, there is no clear solution to ease or prevent the increasing sectoral income gap, which has become aggravated since the foreign currency crisis in Asia (Table 1-9). The possibility of solidarity among different income classes and different sizes of enterprises remains low within the monopolistic state of industrial relations in each corporation.

TABLE 1-9 INCOME DISTRIBUTION TRENDS OF URBAN WORKING HOUSEHOLDS

	Income Share by Quintile (in %)					Income Share (E/A)	Gini's Coefficient
	1 st Quintile(A)	2 nd Quintile(B)	3 rd Quintile(C)	4 th Quintile(D)	5 th Quintile(E)		
1997	8.3	13.6	17.7	23.2	37.2	4.49	0.283
1998	7.4	12.8	17.1	22.9	39.8	5.41	0.316
1999	7.3	12.6	16.9	22.9	40.2	5.49	0.320
2000	7.5	12.7	17.0	22.7	40.1	5.32	0.317
2001	7.5	12.5	16.9	22.7	40.3	5.36	0.319
2002	7.7	12.7	17.1	22.9	39.7	5.18	0.312
2003	7.4	13.2	17.4	23.2	38.8	5.22	0.306

Note: Income Share by Quintile

Source: National Statistical Office, "Urban Household Bulletin", for each year.

5. The Future of Enterprise-based Industrial Relations: Challenges and Alternatives

During Korea's industrialization process, the export-oriented development strategy rapidly expanded the labor-intensive production system based on low wages. On the one hand, the expansion imposed limits on the collective labor rights, while on the other hand, expanding jobs and raising wages steadily that resulted in the improvement of workers' quality of life. In other words, during the 70s and 80s, while the collective labor-management relations such as the right of association, the right of collective bargaining and the right to strike were re-

stricted, individual labor-management relations such as restriction on dismissals, employment stability, wage hikes based on seniority were provided as unquestioned benefits. Such a labor system was a natural outcome of Korea's globalization process during that era, and was internally justified on the basis of the miraculous transformation from a poverty-stricken country without jobs to one of the fastest growing economies in the world with less than 2% unemployment rate.

Nevertheless, such labor system began to rattle as it passed through two pivotal moments in history. The first historical juncture was the so called "great struggle of the workers" in 1987, and the other was the integration into the international capital market, which began with Korea's attempt to join OECD in the mid-1990s and the foreign currency crisis in '97. Through these two revolutionary experiences, Korea's labor system came face to face with a full-scale challenge – namely, the activation of collective labor-management relations and the reform of individual labor-management relations. On the one hand, the recognition of unions, institutionalization of collective bargaining and frequent incidences of militant strikes became the characterizing feature of the industrial relations in Korea. On the other hand, the recognition of employers' right to dismiss employees, annualized and performance-based wage systems, and the practice of signing employment contracts emerged as the countermeasures. Consequently, such challenges and countermeasures shook the very foundation of the labor system that prevailed in Korea during the 70s and 80s.

The Korean model of the labor market is often said to lack flexibility. But such simplification is rather misleading. I argue that the labor market in Korea is divided into a dual structure - one with a high rigidity and the other with an excessive flexibility. Though these stereotypical characteristics have slightly changed after the economic crisis and IMF relief, they are still important characteristics in understanding the structure of the Korean labor market.

What I mean by characterizing the Korea's labor market as having a dual structure is that large enterprises and the public sector have a high level of employment stability and low labor turnover on the one hand, SMEs and non-regular workers experience low employment stability and

high labor turnover on the other hand. This dual structure is strengthened by labor-management relations systems, according to which large enterprises and public corporations have large and active unions, which reinforce wages and employment stability, while SMEs and non-regular sectors cannot expect such protection because either their unions are too weak or they do not have a union. Of course, in the background, the employers' ability to pay high wages and the business's monopolistic position in the market plays an important role.

For the sake of convenience, let us call the large enterprise and public corporation sector the "primary labor market sector," and SMEs and non-regular work sector including daily wage workers the "secondary labor market sector." On the one hand, once employed, the primary sector with an elaborate system of internal labor market will provide lifetime employment within the corporation and immunity, to a certain extent, against dismissal. Due to company-specific human resource development, movement of personnel between companies would also be quite difficult. The pay structure is seniority-based, and personnel transfers are not easy due to union opposition. On the other hand, the secondary labor market is a complete competition model, in which recruitments and dismissals occur frequently. Payment is given based on the market rate, linked to the type of work, and general skills and technology circulated in this market.

With the advancement of globalization, what faced the greater challenge was the primary labor market. Because the large enterprises have traditionally played the role of engine for export-oriented economic growth in Korea, large enterprises highly depended on the external economy with respect to the market and, more recently, for provision of capital. Thus, the necessity for labor market flexibility and raising competitiveness has continuously been raised. The greatest difficulties in labor issues faced by these enterprises were that dismissing existing employees was difficult compared to other countries, and that it was hard to set market wages in the process of recruiting and using new employees.

The difficulty in dismissal is largely attributed to the strong opposition of the union or employees. The workers resisted the restructuring attempt because they were used to the lifetime employment model, and thus getting laid off from a job meant facing a significant socio-

economic disadvantage as well as facing a labor market where reemployment is very difficult. The issue is also linked to the earlier-mentioned difficulty in recruiting and transferring. In a situation where workers are not trained based on tasks and the market wage is not set, employment opportunities for job-seekers will be limited and enterprises will be unable to carry out effective human resource management due to a lack of information.

Going through fundamental changes in the environment surrounding industrial relations since '97, and for a decade since 1987, the enterprise-based industrial relations failed in adapting to the market as well as in achieving of social solidarity. Thus, we may conclude that the collective bargaining model under the enterprise-based labor relations has reached its limits. In a situation where both unions and employers of large enterprises are reluctant to move toward industry-wide labor relations right away, in order to create a balanced labor relations system that can address the bipolarization situation between workers of different sizes of companies and become a nation-wide voice replacing the near-extinct trade union movement of SMEs, a new emphasis on social concertation model is needed.

While the "bargaining model" is about forming industrial relations based on collective bargaining between labor and management and realizing workers' interest through negotiation, the "concertation model" is about accomplishing the interest of workers as a whole through negotiations, by reflecting industrial relations in the area of state governance and changing labor-management relations in a balanced way.

However, in the case of Korea, the differentiation between the bargaining model and the concertation model has been vague since 1987. As the bargaining model developed in an unbalanced way, creating a politicized bargaining structure encompassing labor-management negotiation as well as de facto social bargaining between labor and government, labor-management issues easily turned into labor-government issues and wage hikes were easily acquired as the spoils of political strikes. In this process, employers, who were one of the main stakeholders in the bargaining rounds, were often marginalized to the position of a third party by the unions and government, or voluntarily rely on the social representation of the government or public opinion in re-

sponse to the union.

What put the management in such a passive position was the fact that labor-management relations did not need to be regulated by general labor market conditions as the Korean labor market grew continuously in terms of wage and employment. Moreover, the best way to put an end to politicized struggles was to adjust labor-market conditions such as wages and employment within the framework of labor-management relations. Consequently, labor politics excessively relied on the bargaining model, particularly the strike model that was politically mobilized, and workers of companies without the power or potential to engage in strike or pay the expenses were excluded from the domain of labor politics.

Since 1997, industrial relations in Korea met a transitional stage, during which it had to face the full-fledged strength of the market. The face-off resulted in instability and crisis in the labor market, demonstrating the fundamental limitation of the existing bargaining model. Formally, the scope of labor politics expanded with the operation of social dialogue organs such as the Korean Tripartite Commission and improved representation for workers through the election of members of the Democratic Labor Party to the National Assembly. Yet, in terms of contents, the labor movement was unable to effectively deal with the main issues of labor-management relations, such as bipolarization of the labor market, and aggravation of the lives of unorganized workers.

Though the Korean bargaining model still carries much potential for development in terms of industrial bargaining and productivity bargaining, it has reached its limits in terms of playing a leading role in industrial relations. The limitation stems from various sources such as the union's adoption of isolated movement methods based on the public sector, emergence of conferred labor-management relations taking advantage of the bipolarized structure, increased complexity in employment issues besides wages, etc. In addition, the current challenges that face the working class such as the expansion of non-regular jobs, increase of restructuring programs and marginalization of small and medium enterprises (SMEs) have resulted in part from the lack of organized protection from unions. The magnitude of the challenges has reached a level where they cannot be easily resolved through the dispro-

portionately developed bargaining model in enterprise-level labor-management relations.

In order to cope with the severe worker instability that stem from open economy and market bipolarization, strategies that merely attempt to stabilize the bargaining structure for already organized workers and to eliminate causes of strikes are insufficient. Through social consultation and a tripartite concertation model, we must rationalize the bargaining culture of individual workplaces from a practical and productive perspective, and strive to take the political bargaining issues related to social reform and economic policy to a higher level for consideration. The new model will not only focus on the stabilization of labor-management relations in the large enterprises, but also embrace the issues of the majority of workers, including those with no union representation such as non-regular workers and employees of small and medium enterprises.

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PART II

ISSUES, FINDINGS AND PROSPECTS

- 2 Korea's Unionism and Its Labor Market Outcomes
- 3 Industrial Relations and Union Politics in Large Firms in South Korea
- 4 HRM, Employees, and Industrial Relations in Large Size Korean Companies Since 1987
- 5 Corporate Governance and Industrial Relations in the Korean Business Conglomerates
- 6 The Growth of Nonstandard Employment, Changing Labor Market Structure and Industrial Relations
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Chapter 2

Korea's Unionism and Its Labor Market Outcomes

Dae Il Kim*

1. Introduction

Unions pursue higher wages and job security to protect the interests and enhance the welfare of their members. Although unions share these common goals, their organization and bargaining types, the regulations and laws governing industrial and labor relations, and the economic environment in which unions function vary substantially across countries. As a result, the labor market effects of unions also vary among countries depending on these factors and their interactions with union activities.

Labor market effects of unions are in general of three types. First, union wages above market equilibrium level usually result in lower employment, and there occurs an efficiency loss associated with lower employment and outputs. Second, effective communication between labor and management, through union or work council, can improve productivity in several ways.¹ Third, union wage setting usually brings in greater equality by raising the wages of low-wage workers and reducing within-firm wage dispersion. In some cases, unions also contribute to reduced wage dispersion across firms.

Freeman and Medoff (1984), for example, reports that the effi-

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1) Efficient grievance procedure helps maintain worker morale and attachment to the firm. At the same time, reduced voluntary separation can save replacement costs and the effectiveness of on-the-job training.

ciency loss associated with lower employment and the efficiency gain from higher productivity tend to offset each other in the US during the 1970s. Further, unions are also commonly found to contribute to reduced inequality in many related researches.² These effects, however, do not exactly hold in Korea, and this study documents how the labor market impacts of Korea's unions deviate from the western examples and discusses why.

One notable aspect of Korea's unionism is that its industrial and labor relations have remained quite confrontational since union activity was first fully liberalized in 1987. Despite the recent movement toward industry-level organization, unions in Korea still remain to be organized mostly at establishment levels. Establishment-level unions are, in general, expected to be better disciplined by market mechanisms, and thus as a result, labor market remains to be quite flexible. Further market competition faced by individual bargaining units often leads to cooperative industrial and labor relations, or at least, to frequent concession bargaining rather than disputes.

Korea's unionism, despite being an establishment-level unionism, apparently lacks these virtues, and I consider the following factors to explain it. Unions are very much concentrated among large firms which often possess strong market powers earning non-competitive rents. The difficulty to finance union activity has led to concentration of unions among large firms where a large number of workers could be easily recruited. These large firms, in addition to their monopolistic power in product markets, command a disproportionately large amount of resources as many small and medium-size firms produce for them under complicated subcontracting network, and also possess monopsonistic power in the intermediate product markets. The Korean government has continued to selectively intervene in their labor disputes in an attempt to prevent a series of bankruptcies among the small subcontracting firms, but its failure to remain as a neutral rule-enforcer has led to the "narcotic effect" among firms and unions. Neither firms nor unions

2) Unlike Milton Friedman's prediction, unions are found to have reduced both intra- and inter-firm wage inequalities (Freeman, 1980, 1982). Further, a non-trivial part of the increase in wage inequality during the 1980s has been attributed to the decline in union density (e.g. Card, 1998).

have learned to compromise, but instead, they have often found it profitable to induce the government to intervene. The confrontational unionism in Korea has substantially limited the possibility that unionism contributes to improved productivity through cooperation and communication.

Another important difference in union's labor market effects in Korea is that unions have not contributed to reduced inequality; if any, they tended to increase, not decrease, wage inequality. As unions are concentrated among large firms paying higher wages, union workers are located high in overall distribution. Unions' efforts to raise wages have increased the gap between union and non-union workers, and at the same time, high union wages have suppressed job creation in the high-wage sectors, resulting in an increase in labor supply into low-wage sectors, which further widened the gap. The increase in the wage gap has been reinforced through the practice that a part of high labor-cost burdens of large union firms is shifted to smaller non-union firms that produce intermediate goods for the union firms. Small firms on such subcontracts have suffered from lower profitability, and as a result, their workers have suffered from slower wage growth.

It has been argued that industry-level organization can help reduce this insider/outsider type problem, but its ground is not strong, not to mention its negative efficiency implication.³ Given the considerations above, it appears much more important to devise a competition-oriented policy. The Korean government needs to further promote competition in the market and remain as a strictly neutral rule-enforcer in order to induce cooperative and flexible industrial and labor relations. Industrial policies and trade barriers that have limited competition need be eliminated.⁴ Capital market must function in such a way to facilitate small and medium-size firms to independently finance their operations. Small and medium-size firms have had few choices but to produce on such

3) See Freeman (1994) for the link between economic performance and union organization.

4) Korea's government has attempted to protect small and medium-size firms by selecting a set of products to whose market large firm's entry is denied. Such policy has brought about two undesirable side-effects. First, entrepreneurship was not effectively fostered among firms due to the lack of competition within the product's market. Second, the policy barred "additional large firms" from entering, and the existing large firms in the market at the time of introduction of the policy have enjoyed even stronger monopoly power since.

subcontracts, which render the large firms strong monopsony powers, as the Korean banks have been reluctant to lend to small firms unless they are endorsed by large firms.⁵ Healthier capital flow is essential to foster entrepreneurship among small and medium-size firms and reduce the monopsony power of large firms. In addition, the government and political parties must refrain from intervening labor disputes and trying to resolve them through political bargaining, and must act as a neutral and strict rule-enforcer. It can help reduce the expectation by firms and unions for the government's intervention in their favor, and promote the practice of independent bargaining among themselves. Further, it will discourage illegal secondary actions or excessive lockouts, which have often been viewed as the tactics inducing the "impatient" politicians' intervention.

This study unfolds in the following way. Section 2 briefly describes the extent of unionism in Korea. It covers the characteristics of union workers and the basic wage and employment effects of unions. Section 3 discusses the concentration of market power among large firms and the resulting market outcomes of Korea's unionism. It is emphasized in the section that the concentration of market power is one of the main reasons why Korea's unionism has led to inequality and confrontation despite being the supposedly flexible "enterprise-level" unionism. Section 4 concludes by discussing the related issues such as the industrial and labor relations policy of the government and political parties.

2. General Description of Korea's Unionism

Although labor unions have existed since the 1960s in Korea, there had been few union activities until 1987 when union activities were liberalized. During the pre-1987 period, two successive authoritarian governments had regarded labor-movement as a major obstacle to economic growth, and effectively suppressed them.⁶ The 6.29 Declaration

5) Korea's banks have long been under the government's direct and indirect controls, and their own ability to assess the profitability of small firms has been quite restricted. The financial crisis in the late 1990s led to a greater freedom of banking sectors from the government, but due to the lack of such ability, the Korean banks have still been focusing on loans to large firms and consumer banking.

6) Rapid expansion of exports was one of the main engines for economic growth in Korea, and

in 1987 issued in the middle of Korea's social movement for greater democracy was the true beginning of current unionism.

2.1 Organization and union activity

There were as many as 2,000 unions in the early 1960s, whose number grew until the late 1970s, but most of them were "dormant" in the sense that their activities were quite limited under the authoritarian governments. Between 1980 and 1987, the number of unions remained even lower as the military government strongly suppressed union activities. The number of unions, which was as high as 4,965 in 1979, averaged only at around 2,300 during the 1980-1986 period (see Figure 2-1).

Both the number of unions and union membership soared in 1988 following the liberalization of union activities. Figure 2-1-(A) shows that the number of unions rose to 6,164 and the membership to 1.7 million. Such increase in union coverage was somewhat temporary, however, and the membership had gradually declined since then. Although it started to rise again in 1999, it mostly reflected "legalizing" the previously illegal unions.⁷ As of 2003, union membership stood at 1.55 million. Stagnant membership since the late 1980s was also reflected in the declining trend of union organization rate. Figure 2-1-(B) shows that the union share was almost 20% of total wage/salary workers in 1989, but it has continuously declined since. As a result, it stood at 11% in 2003.

Strike frequency also rose substantially during the first few years since 1987, but it quickly subsided as indicated in Figure 2-2. There took place more than 1,800 strikes in 1988 and more than 1,600 strikes in 1989, but it fell below 400 in 1990 and kept decreasing until the late 1990s. The number of strike participants also fell from 400 thousands in 1989 to 50 thousands in 1995. Total man-days lost due to strikes show a similar pattern (Figure 2-2-(B)), and the average strike duration, defined as the ra-

relatively low labor costs were considered to have contributed to many exported goods' competitive edge in international market.

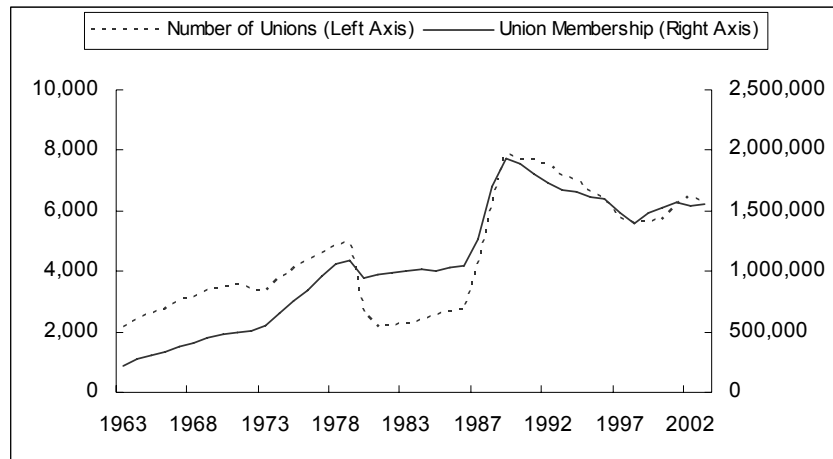
7) The Korea Confederation of Trade Unions (KCTU), one of the two national-level unions in Korea, had not been recognized by a legal entity until 1998 when multiple unions were newly allowed by law. Before then, the Federation of Korean Trade Unions (FKTU) was the only legal national-level union. Another example is teachers' union, which was recognized by law only in the early 2000s.

tio of man-days lost to the number of participants, had declined, too, until the mid-1990s.

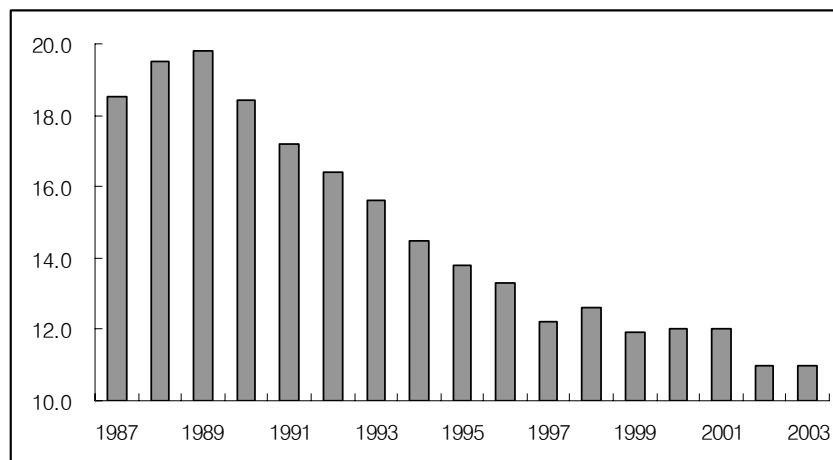
It is notable, however, that the pattern somewhat reversed through the mid-1990s, especially since 1997 when the economy experienced the financial crisis. Strike frequency showed a 6-fold increase from 78 in 1997 to 462 in 2004, and the participants from 44 thousands to 185

FIGURE 2-1 EXTENT OF UNIONISM IN KOREA

(A) Number of Unions and Membership



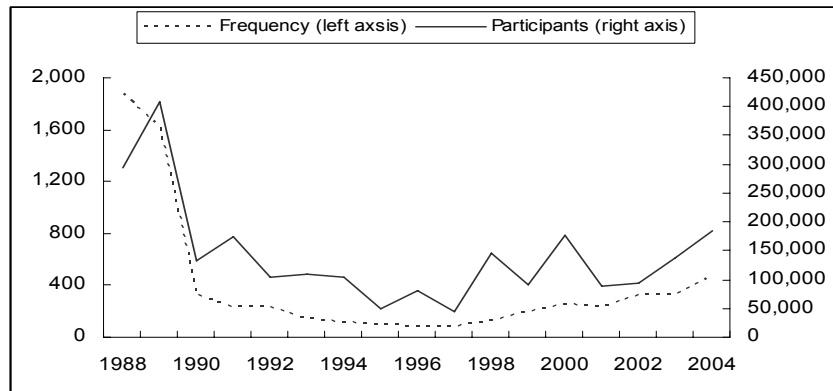
(B) Union Organization Rate (%)



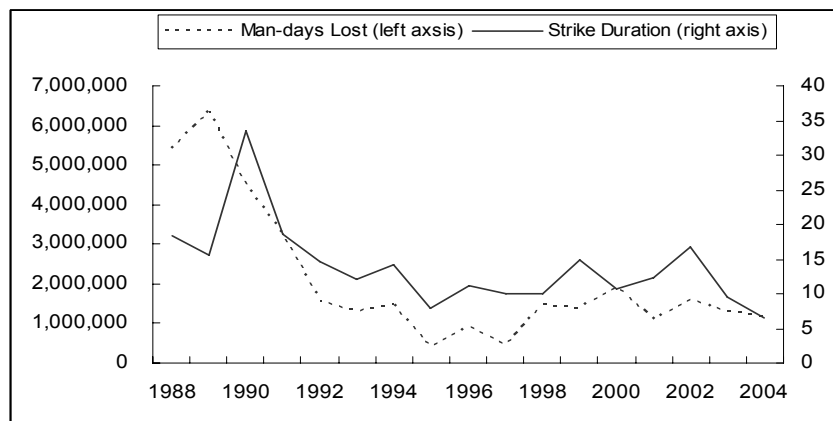
Source: Ministry of Labor, Korea.

FIGURE 2-2 WORK STOPPAGES BY UNIONS

(A) Strike Frequency and the Participants



(B) Total Man-Day Losses and Average Duration of Strikes



Source: Ministry of Labor, Korea.

thousands during the same period. Man-days lost also tripled from .4 million to 1.2 million reflecting more frequent strikes. Although the average strike duration fell from 11 days to 6 days, Korea still remains to be the one with greater man-day losses due to strikes among the OECD countries. Table 2-1 indicates that the average man-days lost due to strikes were 111 days per 1,000 workers in Korea during the 2000-2002 period, which were twice greater than in the US, three-times greater than in the UK and almost 100 times greater than in Sweden and Japan. Frequent strikes and many man-days lost are the typical outcomes of con-

TABLE 2-1 CROSS-COUNTRY COMPARISON OF MAN-DAYS LOST (PER 1,000 WORKERS)

	1960s	1970s	1980s	1990s	2000-2002
United States	432 ¹⁾	500	121	39	56
United Kingdom	156	573	337	30	32
Germany ²⁾	15	49	25	10	3
Sweden	17	45	182	47	1
Japan	110	124	10	2	1
Korea	15	3	197	140	111

Notes: 1) Decade averages are calculated for annual man-days lost due to strikes.

2) The Figures for Germany before the 1990s are those for West Germany.

Source: ILO, Labour Statistics Database; OECD, Labour Force Statistics Database.

frontational unionism in Korea. Strikes during the late 1980s could be considered to be the “growing pains” in the early stage of liberalization from the past suppression, but it has remained to be rather “confrontational” even after almost 20 years.

2.2 Union workers: who are they?

Unions in Korea are establishment-level unions, as Trace Union Act, the Korean law governing unionism, has not allowed third party intervention in union bargaining until recently. National-level headquarter unions were, in principle, not allowed to participate in any bargaining procedure between its member-unions and their firms. As a result, enterprise-level unionism has remained to be the key characteristics of Korea’s collective bargaining. Although several industrial unions were recently formed, industry-level bargaining is still very rare.

As noted in Freeman (1994) and others, economic performance of unionism is often associated with organization types. Enterprise-level unionism is known to have greater flexibility, and wages and employment outcomes tend to be similar to the market outcomes that would have resulted from non-union setting. Individual firm’s wage and employment allocations fall in the range allowed by market forces, or market demands, as otherwise its survival would be threatened under competition. Thus efficiency loss associated with union’s wage effects tends to be smaller, and the efficiency gain from improved communication between workers and management tends to be greater.

Confrontational unionism in Korea is somewhat of an exception to this rule. Unions in Korea are enterprise-level unions, but they are hardly associated with greater flexibility or concession bargaining. As shown in the previous section, strike frequency is high and man-days lost are many. One may find the reason for these from the characteristic of Korea's unionism that unions are highly concentrated among large firms with non-competitive rents. Table 2-2 shows the employment share of firms with unions within each size group, where firm size is measured by the number of regular employees.⁸ In 1988, for example, 82% of workers in firms with 500 or more regular employees were in unionized firms in contrast to 7.5% of workers in firms with 10-29 workers. Such skewedness in union distribution is somewhat reduced in 2003, but still the gap remains quite large; 80% of workers in firms with

TABLE 2-2 UNION PRESENCE BY FIRM SIZE

(1) All Industries

Year	Employment Size				
	10-29	30-99	100-299	300-499	500 or more
1988	0.075	0.226	0.568	0.726	0.821
1991	0.126	0.336	0.666	0.777	0.846
1994	0.145	0.336	0.707	0.796	0.842
1997	0.135	0.251	0.623	0.757	0.787
2000	0.152	0.266	0.610	0.785	0.795
2003	0.161	0.293	0.582	0.741	0.795

(2) Manufacturing

Year	Employment Size				
	10-29	30-99	100-299	300-499	500 or more
1988	0.010	0.098	0.437	0.663	0.839
1991	0.060	0.157	0.557	0.720	0.871
1994	0.021	0.214	0.643	0.813	0.859
1997	0.037	0.100	0.523	0.781	0.824
2000	0.044	0.116	0.486	0.779	0.881
2003	0.025	0.185	0.487	0.778	0.792

Note: These shares are the shares of workers in unionized firms as the fraction of total workers in each size group.

Source: The author's calculation from the Wage Structure Survey, Ministry of Labor, Korea.

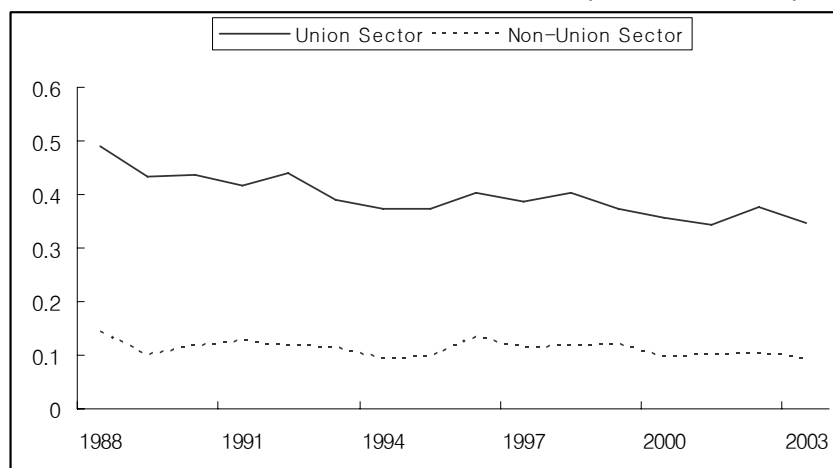
8) Regular employee is defined as those satisfying at least one of the following four : 1) a worker who has a fixed-term contract in excess of one month or an unspecified-term contract, 2) a temporary or daily worker who has worked for no fewer than 45 days during the previous 3-month cycle, 3) a high ranking worker (executive) who is on the payroll and physically present at the establishment, or 4) a family member of the firm's owner who is on the payroll and physically present at the establishment.

500 or more regular employees are in union firms in contrast to 16.1% of workers in firms with 10-29 regular employees.

The skewedness in union density is even stronger in the manufacturing sector. In 1988, only 1% of workers in firms with 10-29 regular employees were in unionized firms while 84% of workers in firms with 500 or more regular employees were in unionized firms. The pattern has changed little during the next 15 years. Only 2.5% of workers in firms with 10-29 regular employees were in unionized firms while 79.2% of workers in firms with 500 or more regular employees were in unionized firms in 2003.

Large firms account for only a fraction of total wage/salary workers. For example in 2003, firms with 500 or more regular workers accounted for mere 10.2% of total wage/salary workers. However their share in employment was as high as 50% in union-sector employment in 1988 as shown in Figure 2-3, reflecting union's concentration among large firms. This share has fallen to 35% in 2003, as the share of large firms in total employment fell and the concentration pattern slightly weakened. Nevertheless the gap between union and non-union sectors remains still large, as only 9% of non-union workers are in firms with 500 or more workers.

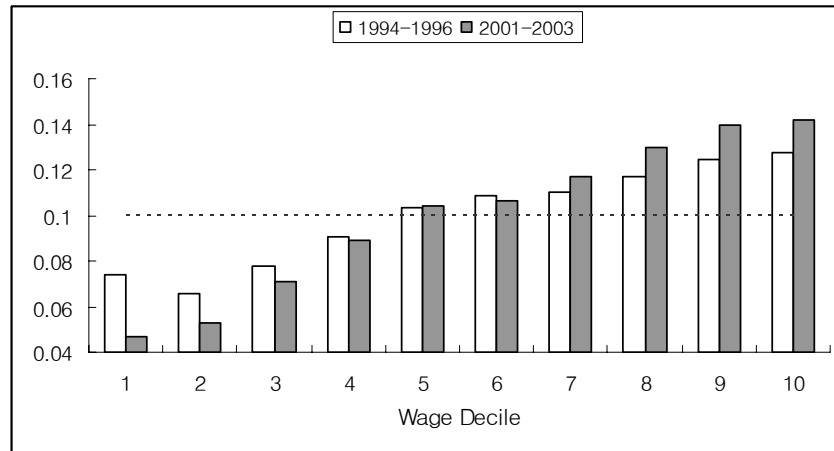
FIGURE 2-3 EMPLOYMENT SHARE OF LARGE FIRMS (500+ EMPLOYEES)



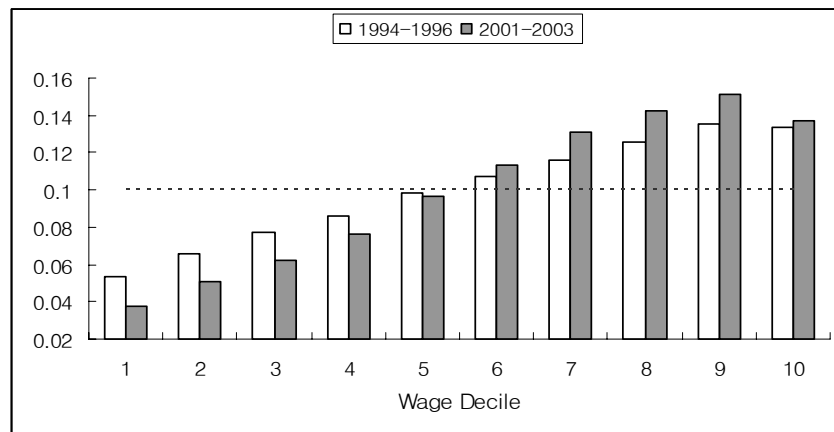
Source: The author's calculation from the Wage Structure Survey, the Ministry of Labor, Korea.

FIGURE 2-4 LOCATION OF UNION WORKERS IN OVERALL WAGE DISTRIBUTION

(A) All Industries



(B) Manufacturing Only



Source: The author's calculation from the Wage Structure Survey, the Ministry of Labor, Korea.

Union's concentration in large firms has an important implication on the identity of union workers in Korea. Figure 2-4 indicates that union workers are high wage workers in overall wage distribution. In the Figure, workers are grouped into 10 equal-size wage deciles from low to high wage levels so that each decile contains the same number of workers, or 10% of total wage/salary workers. Then I calculate the share of union-firm workers among these deciles. If there is no system-

atic difference in wages between union and non-union workers, the distribution should be flat, or each decile should contain 10% of union workers. But the Figure clearly indicates that union workers are more likely to be found in upper (high-wage) deciles, and the pattern has become more pronounced in recent years.⁹ For example in the early 2000s, less than 5% of union workers were in the lowest 10% in wage distribution, while more than 40% of union workers are in the top 30% of wage distribution. This skewedness in distribution is somewhat stronger in manufacturing.

The tendency that union workers are high wage workers in overall wage distribution is one of the most important characteristics in Korea's unionism, which is attributable to unions' concentration in large (high-wage) firms. Being high wage workers, union workers' efforts to further raise their wages through collective bargaining tend to "widen" overall wage inequality, if any, rather than "reduce" it as in many other countries. As will be seen later, this is one aspect of the "insider/outsider" problems present in Korea's unionism.

2.3 Wages and employment

The main efficiency-loss argument usually associated with unions is based on wages set through collective bargaining above market equilibrium level and the resulting reduction in employment. Union premiums, though not exactly measuring the excess of union wages over market wages, are informative in this regard. Union premiums estimated from the Korean data have been surprisingly small and often negative.¹⁰ There have been put forth a few explanations for such estimates, and the most compelling one is the following; large non-union firms in Korea tend to match union wages or even pay higher wages to suppress the incentive to organize.¹¹ Given the high correlation between firm size

9) It is notable in the Figure that this pattern has strengthened over time. In Figure 4-(A), the share of union workers in the lowest wage decile fell from 7.4% in the 1994-96 period to 4.7% in the 2001-03 period while that in the highest decile rose from 12.8% to 14.2%. A similar pattern is found when the comparison is limited to manufacturing.

10) Recently, Kang (2003) and Ryoo (2005) estimate the premiums at 5~8%.

11) Samsung has been the example for this. The management has been effectively avoiding union organization at their plants by paying higher wages than other unionized firms such as Hyun-

and union presence, an OLS estimate for union premiums when firm sizes are controlled tends to understate the true union wage effects when large non-union firms match union wages.¹²

That being said, a simple OLS estimate for union premiums obtained from the Wage Structure Survey is provided in Figure 2-5-(A).¹³ The estimates are small for the most of the 1990s, and even negative in 1991. One notable pattern is the sudden increase in the estimate of union premiums following the economic crisis in 1997. The OLS estimate of union premiums rose from .009 log points in 1997 to .123 log points in 2001. An alternative expression for union premium is the ratio of average wages between union and non-union workers based on fixed weights. In particular, the average wages of the worker groups are calculated as below.

$$\begin{aligned} \text{Non-union wages } W_t^N &= \sum_j s_j W_{jt}^N / \sum_j s_j \\ \text{Union wages } W_t^U &= \sum_j s_j W_{jt}^U / \sum_j s_j \end{aligned}$$

In the above, W_{jt}^N and W_{jt}^U are the average wages of non-union and union workers in cell j in year t , where the cells are defined by full interaction of four education levels, six 5-year age groups, five firm-size groups and 20 industries. s_j is the fixed weight for cell j , which is obtained from the average of each cell's employment share over the 1987-2003 period. Then union premiums can be defined as $W_t^U / W_t^N - 1$, which only depends on each cell's wage changes, not on the changes in distribution of worker cells. The resulting estimate of union premiums in Figure 2-5-(B) exhibits a similar pattern as the OLS estimate except that it is somewhat larger for the early and mid 1990s. Figure 2-5-(B) similarly shows a sudden increase in union premiums following the 1997 economic crisis. The premiums rose

dai. Farber (2003) shows that in the US, however, threat effects appear mostly interactively with deregulation.

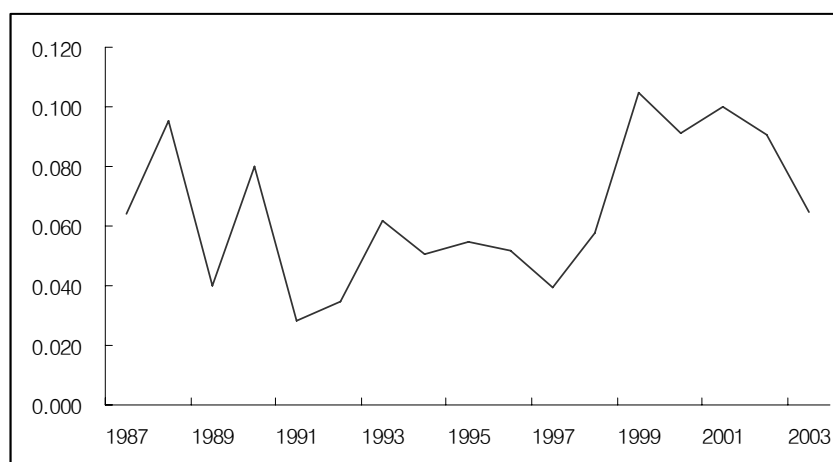
- 12) When union premiums are estimated separately for each firm size group, the premiums are large among small firms but very small among large firms. This size-pattern in union premiums is consistent with this explanation.
- 13) Regression equation includes education, age, age-squared, tenure, tenure-squared, job experience dummy variables, industry and occupation dummy variables, and firm size dummy variables.

FIGURE 2-5 ESTIMATED UNION PREMIUMS

(A) Through OLS Regression



(B) Union/non-union Wage Gaps using Fixed Weights



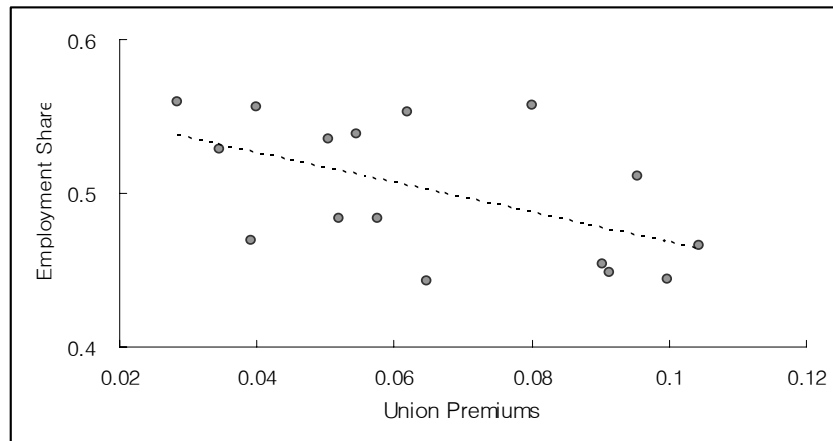
Source: The author's calculation from the Wage Structure Survey, the Ministry of Labor, Korea.

from 3.9% in 1997 to 10.0% in 1999. This post-crisis increase in union premiums reflects two things. First, workers in unionized firms could maintain their wages relative to non-union workers even during the severe economic downturn as they were earning non-competitive rents. Second, when the economy started to recover from the crisis, union workers were the first to recoup their losses, if any, during the crisis.

Non-union workers wages rose, too, but much more slowly than union wages at the initial period of economic recovery.

One may argue that the efficiency loss associated with unions has been small in Korea as union premiums have not been large.¹⁴ The post-crisis pattern of union premiums, however, shows the possibility of an increasing efficiency loss as the premiums rose rapidly. Of course, efficiency loss associated with high union wages would be small if union premium reflected only a greater share of non-competitive rents distributed to workers and did not suppress employment.¹⁵ However, in Korea, despite the fact that unions are concentrated among large monopolistic firms, union premiums have been quite strongly negatively correlated with the employment share of union sectors as shown in Figure 2-6. The correlation coefficient between union premium and union sector's employment share is estimated at $-.535$. Further, a simple regres-

FIGURE 2-6 UNION PREMIUMS AND EMPLOYMENT SHARE OF UNION SECTOR (%)



Source: The author's calculation from the Wage Structure Survey, the Ministry of Labor, Korea.

14) Freeman and Medoff (1984) and Freeman (1984) indicate that union premiums in the US ranged between 15% and 25% during the 1970s, which are much larger than the estimates in Korea. Nevertheless, they estimated that the efficiency losses associated with the premiums ranged only between .2 and .4% of the GDP in the US. They interpreted the small efficiency losses as the consequence of low demand elasticity of labor. See also Staiger (1988) for the reduced elasticity of labor demand arising from industrial shift toward capital-intensive technologies.

15) See Freeman and Medoff (1984).

sion of union employment share on union premiums indicates that a 1% point increase in union premium reduces its employment share almost by 1% point, of which relationship is depicted in the Figure as the dotted line.¹⁶ This suggests that the rising premiums during the post-crisis period are likely to have brought about non-trivial efficiency loss associated with wage-setting by unions.

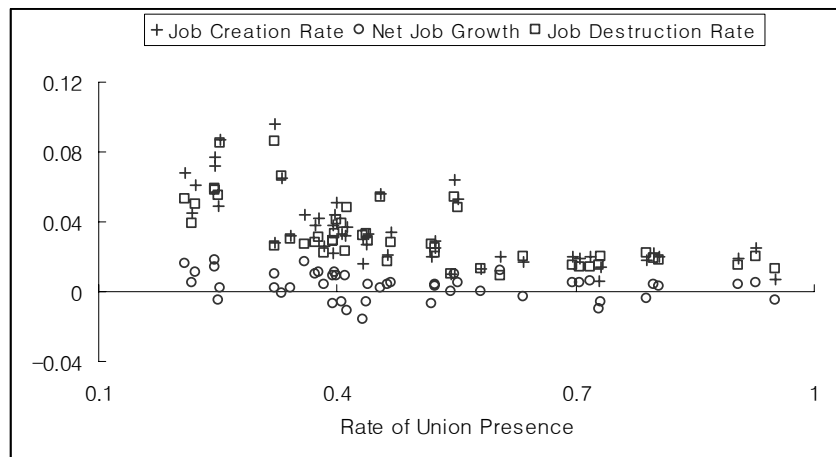
The inverse relationship between union premiums and employment share of union firms reflects mostly a slower (or negative) job growth in union sectors. Figure 2-7 compares the sectoral pattern of union presence and job growths across 18 industries for the post-crisis period (1998-2003).¹⁷ In the Figure, the rate of union presence is defined as the employment share of union firms in each sector. Job growth is defined as the number of those who were idle in the previous month but at work in the current month; job destruction is defined as the number of those who worked in the previous month but are out of work in the current month. Net job growth is the difference between the two. These quantities are divided by the average employment between the two consecutive months to produce job growth and destruction rates and net growth rates.¹⁸

Figure 2-7 indicates that both job growth and destruction rates were lower in sectors with higher union presence. This pattern partly reflects that large firms' employments are more stable, but the relative magnitudes of union effects on job growth and destruction indicate that there is a suppressing effect of unions on job growth. As shown in Table 2-3 which reports the simple regression result, a 10% point increase in the rate of union presence is estimated to reduce the rate of job growth by 1% point and the rate of job destruction by .8% point. As a result, net job growth has been relatively suppressed in sectors with higher union presence; a 10% point increase in the rate of union presence is estimated to reduce net job growth rate by .2% point.

16) The regression coefficient is -.961 with its standard error being .405, which is significant at 5% risk.

17) 18 industries are 10 manufacturing and 8 other industries.

18) Job growth data are calculated from Economically Active Population Survey (EAPS), which is a monthly household survey on each individual household member's work status. The post-crisis period is chosen because the EAPS started to offer individual identification code for matching in 1998.

FIGURE 2-7 UNION PRESENCE AND JOB GROWTHS

Source: The author's calculation from the Wage Structure Survey, the Ministry of Labor, Korea, and the Economically Active Population Survey, the National Statistical Office, Korea.

TABLE 2-3 EFFECTS OF UNION PRESENCE ON JOB GROWTH ACROSS SECTORS (1998-2003)

	Job Creation Rate		Job Destruction Rate		Net Job Growth Rate	
Rate of Union Presence	-.100 (.012)	-.101 (.011)	-.082 (.012)	-.085 (.011)	-.020 (.007)	-.017 (.005)
Year Dummies	No	Yes	No	Yes	No	Yes
N	51	51	51	51	51	51
Adjusted-R ²	.588	.626	.502	.596	.106	.652

Note: The standard errors are in the parentheses.

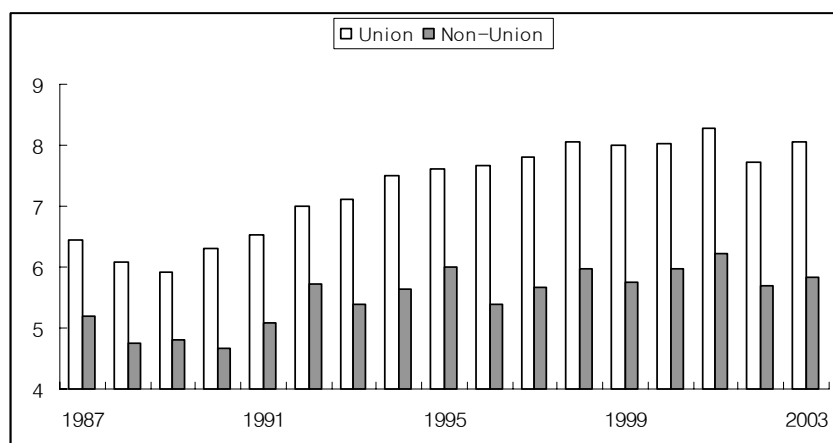
Source: The author's calculation from the Wage Structure Survey, the Ministry of Labor, Korea, and the Economically Active Population Survey, the National Statistical Office, Korea.

Although job growth has been suppressed by union presence and high premiums as typical, it is also important to notice that job destruction rate has been lower in union sectors as well. As was indicated in Figure 2-7 and Table 2-3, a low job destruction rate in highly unionized sectors may reflect some efficiency gains from union presence through lower turnover costs (Freeman and Medoff, 1984). Such efficiency gains are greater if low turnover rate reflects well-managed grievance procedures and the resulting higher job satisfaction.

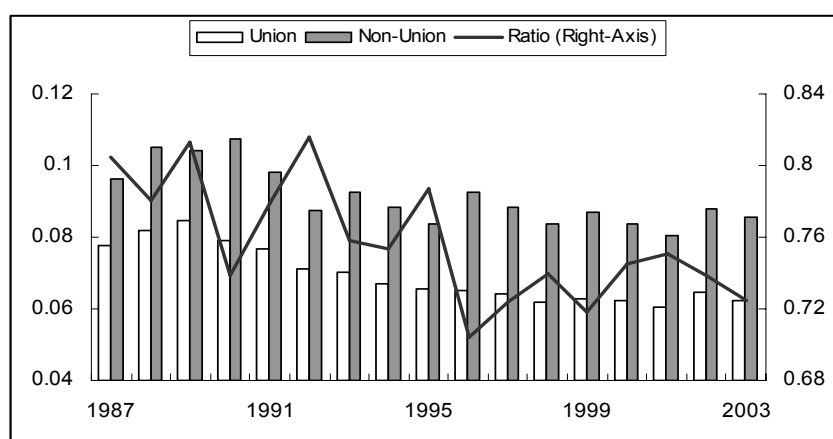
Figure 2-8 compares job tenure and exit hazard between union and non-union firms for the 1987-2003 period. Figure 2-8-(A) compares the average length of interrupted tenure spells of currently employed work-

FIGURE 2-8 LOWER JOB TURNOVER RATES IN UNION SECTOR

(A) Average Length of Interrupted Tenure Spell (in years)



(B) Imputed Annual Exit Hazards



Source: The author's calculation from the Wage Structure Survey, the Ministry of Labor, Korea.

ers between union and non-union firms. In order to isolate the effect of union from other effects such as firm-size and worker demographic effects, the average lengths of interrupted tenure spells are calculated in the similar manner as the union premiums in Figure 2-5-(B). In other words, these tenure series are calculated based on the fixed weights across narrowly defined cells over time. The Figure indicates that the average tenure has steadily been longer in union firms than non-union

firms.

The tenure gap between union and non-union firms tend to have been increasing. This can be seen more clearly by comparing exit hazards between them.¹⁹ Figure 2-8-(B) shows the declining pattern of exit hazard for both union and non-union firms. However, the hazard has declined faster among union firms; the ratio of exit hazard of union firms to non-union firms is declining.

To the extent that the lower and faster-falling turnover rates among union-firms reflect higher job satisfaction from better-managed grievance procedure, they are directly linked to efficiency gains. However if they reflect higher job satisfaction from high wages alone, the associated efficiency gains are smaller. Indeed, Korea's unions (and sometimes work-councils) have been active in some grievances, which are expected to improve economic efficiency by enhancing job satisfaction through non-pecuniary benefits. However, there is also evidence that wages are an important factor reducing exit hazard of union workers. A simple correlation between the union premiums in Figure 2-5-(B) and the ratio of exit hazard in Figure 2-8-(B) is estimated at -.362. That is, exit hazard fell relatively more among union workers when union premiums were higher. Thus one can only say at best that the evidence here is mixed. Tenure tends to be longer and turnover costs tend to be lower in union firms, but it is not clear how much of such effects can be attributed to efficiency-augmenting "communication" effects net of the effects of higher wages.²⁰

19) The exit hazard is simply estimated from the assumption that there is no duration-dependence (Heckman and Singer, 1985). Under the assumption, the exit hazard is simply the inverse of completed spell duration, whose expected value can be calculated to be twice longer as the interrupted spell duration. Thus the exit hazard is calculated as $1/2T$ where T is the average length of interrupted tenure spell.

20) Researches directly comparing productivities among union and non-union firms are very rare in Korea. Researches on the US firms have offered the evidence that union's impact on productivity greatly depends on the "cooperativeness." Kleiner, Leonard, and Pilarski (1999), for example, show that militant unions can substantially reduce short-term productivity, and Lalonde, Marschke, and Troske (1996) found that unionization led to a decline in both productivity and employment. Kochan, Katz and McKersie (1994) argue that the success of workplace innovation critically depends on the extent of cooperation between labor and management.

3. Product Market Structure and Labor Market Outcome

The concentration of unions among large firms is a natural outcome given that there are usually more rents to split. What makes the Korean case unique is that a few large firms, mostly organized, exert a strong economic power in the market. As Pencavel (1996) notes, market competition is one of the important channels through which industrial relations are disciplined and “cooperative” efforts are induced. The lack of competition in union sectors has been one of the key reasons why Korea’s industrial relations have remained rather confrontational.

3.1 Concentration of market power and unionism

Large firms in Korea, despite their being a small fraction of total firms, have possessed a strong market power.²¹ Export-oriented growth strategy of the governments since the 1960s has offered various benefits to exporting companies and fostered concentration of market power among a small number of large firms that have had a better access to international markets. Large firms were the first to receive development loans through government at a preferential rate, and their export was given various tax benefits. In addition, the government started in the mid-1970s to heavily subsidize heavy and chemical manufacturing in an attempt to substitute imports, known as the “Big Push,” which also led to the birth of a few very large monopolistic firms.

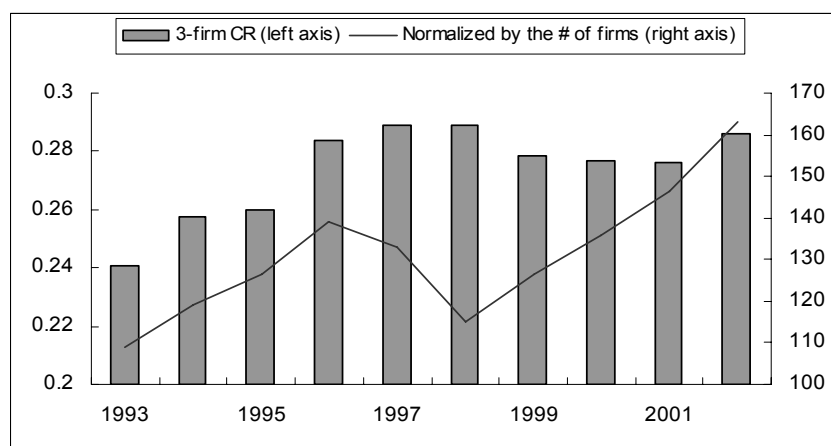
Large firms in Korea have possessed strong market powers over both consumers and small and medium-size firms. Import barriers and tariffs have allowed large firms to have monopoly power in domestic market that have resulted in non-competitive rents. At the same time, under the highly developed subcontracting network in which large firms produce final goods while small firms produce intermediate goods for the large firms, many small and medium-size firms found it easier to produce for large firms rather than directly competing against them in domestic markets. Given a handful of large downstream firms, competi-

21) Large firms, defined as those with 300 or more regular employees, account for .2% of total firms and 13.3% of total wage/salary workers in 2003.

tion lacked in the final goods market, but competition for subcontracting among small and medium-size firms has been fierce.

The average 3-firm concentration ratio in mining and manufacturing in Figure 2-9 shows well the pattern of market concentration in Korea.²² The average is taken over sixty five 3-digit sectors where sectoral employment is used as the weight. The concentration ratio has been increasing during the mid-1990s and remained stable at around .28 since the late 1990s. As the ratio depends on the number of firms within each sector, it needs to be normalized by the number of firms to more precisely represent concentration of market power. I use $3/N$ as the normalizing factor where N is the average number of firms in a sector. That is, if all firms are equal-sized in an industry, 3-firm concentration ratio in the industry will be simply 3 over the number of firms. Thus the excess of the actual ratio to this normalizing factor truly reflects concentration of market power. The average of normalized index (the actual ratio divided by the normalizing factor) is depicted in the Figure as the solid line. It indicates that concentration of market power has been

FIGURE 2-9 CONCENTRATION OF MARKET POWER IN MINING AND MANUFACTURING



Note: Sectoral employment is used as weights in calculating the averages.

Source: Korea Development Institute, Seoul, Korea.

22) 3-firm concentration data are obtained from Dr. Yong-Seok Choi at Korea Development Institute.

steadily rising except for the 1996-98 period.²³

An important point is that concentration of market power is closely associated with unionization in Korea. Unionization rate and wages are regressed on the concentration ratio at industry level for the 1993-2002 period, and Table 2-4 summarizes the results. When regressed only on the concentration ratio, the result indicates that a 10% point increase in the concentration ratio raises the (employment) share of union firms by 4.6% point. When the number of firms is added to the equation, the effect is smaller at 1.8% point but still remains significant. The coefficient on the number of firms is significantly negative, indicating that greater market competition due to a greater number of firms tends to reduce unionization rate.

Table 2-4 indicates that wages are higher, too, in those sectors with high 3-firm concentration ratio. The wage effects are similarly positive for both non-union and union workers, indicating that concentration of market power has a general tendency to increase wages. The wage effect, however, is greater among union workers. When regressed alone on the concentration ratio, the results indicate that a 10% point increase in 3-firm concentration ratio increases non-union wages by 1.4% point, union wages by 2.4% point, and thus union premiums by 1.0% point.²⁴

TABLE 2-4 UNIONIZATION, WAGES AND CONCENTRATION OF MARKET POWER

	Unionization Rate		Log Wages					
			Non-Union		Union		Union Premium	
3-Firm C-Ratio	.461 (.038)	.181 (.054)	.140 (.026)	.211 (.039)	.241 (.026)	.221 (.037)	.101 (.029)	.011 (.044)
Log(# of Firms)		-.068 (.010)		.017 (.007)		-.005 (.007)		-.022 (.008)
Year Dummies	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
N	502	502	502	502	502	502	502	502
Adjusted-R ²	.241	.307	.658	.661	.748	.747	.054	.067

Note: Sectors with no less than 20 firms are sampled (3-digit industry, 1993-2002 data).

Source: Korea Development Institute, Seoul, Korea.

23) Two very large firms, Hanbo Steel Inc. and Kia Motors Inc., went bankrupt in 1997, which were the beginning of the financial crisis. Large firms with huge debts struggled during the early years of the crisis, particularly in 1998, which contributed to the decline in concentration ratio. Following the "Big Deal" policy during the recovery stage, however, the government merged many struggling firms to the leading firms in each sector, which has been criticized as even more solidifying the concentration pattern in the ensuing years.

24) Wages in the regression are calculated using the same fixed demographic distribution for each sector, and thus the regression results do *not* reflect the difference in age and educational distribution of workers among sectors.

Large firms have had not only monopoly power in the final goods market, but also monopsony power in intermediate goods market. Subcontracting network between large and small firms has been prevalent since the export-oriented growth period, and the concentration of market power in final goods market has inevitably created monopsony power of large firms in the intermediate goods market. Subcontracting between large downstream firms and small upstream firms is still very prevalent in Korea. Table 2-5 shows that more than 60% of small and medium-size enterprises (SME) engage in subcontracting, and the fraction has been on an increasing trend during the 1990s. For example, the fraction was 48.9% in 1994, but it rose to 63.1% in 2003. The fraction of firms engaging in subcontracting does not vary much with firm size, reflecting that subcontracting is a universal practice among small and medium-size firms, or those with fewer than 300 employees.

TABLE 2-5 SHARE OF SMALL AND MEDIUM-SIZE ENTERPRISES IN SUBCONTRACTING (%)

	All	By Size of Employment					
		5~9	10~19	20~49	50~99	100~199	200~299
1994	48.9	45.1	52.4	51.4	50.6	42.8	47.5
1997	57.6	52.7	63.9	60.2	58.0	50.2	53.3
2000	66.4	66.6	64.2	69.3	66.4	64.4	62.8
2003	63.1	61.4	65.7	63.7	63.5	64.8	60.2

Source: Korea Federation of Small and Medium Business (<http://stat.kfsb.or.kr>).

These small and medium-size firms engaging in subcontracting are highly dependent on their large downstream firms. Panel (1) of Table 2-6 shows the dependency ratio, defined as the fraction of the sales on subcontracts out of their total sales, among the small and medium-size subcontracting firms. The fraction exceeds 80%, and has remained relatively stable through the 1990s and the early 2000s. Further the fraction of sales to the single largest downstream firm out of total sales exceeds 40%! The dependency ratio tends to be greater among smaller firms, implying that small firms are more dependent on their downstream firms in terms of sales. In 1994, for example, firms with 5~9 employees sold 91.1% of their outputs on subcontract while firms with 200~299 employees sold 80.5%. The pattern still remains intact in 2003, although

TABLE 2-6 DEPENDENCY RATIO OF SUBCONTRACTING SME'S

(1) Share of Output Produced under Subcontracts

	All	By Size of Employment					
		5~9	10~19	20~49	50~99	100~199	200~299
1994	84.8 (46.4)	91.1 (45.4)	85.2 (49.5)	86.5 (46.8)	81.6 (44.8)	83.1 (46.5)	80.5 (45.9)
1997	82.8 (45.4)	86.2 (46.4)	88.5 (47.6)	84.4 (46.4)	83.9 (47.7)	78.7 (43.4)	60.9 (37.0)
2000	84.8 (42.1)	84.8 (44.3)	88.3 (43.9)	87.2 (43.6)	85.6 (42.7)	81.2 (39.0)	79.2 (37.3)
2003	81.7	83.4	88.4	80.9	81.2	77.7	73.5

Note: The numbers in parentheses are the share of output produced for the single largest downstream firm.

Source: Korea Federation of Small and Medium Business (<http://stat.kfsb.or.kr>).

(2) Share of Firms with Dependency Ratio Exceeding 90%

	All	By Size of Employment					
		5~9	10~19	20~49	50~99	100~199	200~299
1994	78.1	83.1	74.0	78.4	73.0	70.2	67.2
1997	77.0	79.1	77.1	76.0	71.6	65.2	48.8
2000	81.0	82.8	80.5	78.2	80.1	75.8	75.8
2003	71.4	70.5	75.2	69.9	66.0	67.3	64.0

Note: Dependency ratio is defined as the fraction of total outputs that are sold on subcontracts.

Source: Korea Federation of Small and Medium Business (<http://stat.kfsb.or.kr>).

the size difference is now somewhat smaller; firms with 5~9 employees sell 83.4% of their outputs on subcontract while firms with 200~299 employees sell 73.5%.

Panel (2) of the table shows the fraction of firms with their dependency ratio exceeding 90%, or to put in other words, the fraction of firms that almost entirely depend on their large downstream firms. The panel indicates that 70~80% of subcontracting small and medium-size firms have a dependency ratio over 90%. Further, the fraction tends to be greater among smaller firms. As of 2003, more than 70% of firms with 5~9 employees have a dependency ratio exceeding 90%, while 64% of firms with 200~299 employees have such a high dependency ratio.

Strong monopsony power of large firms implied by the pattern of subcontracting in which small firms highly depend on large downstream firms for their sales has been one of the main reasons why the gap in economic outcomes between large and small firms has been widening. In particular, the profitability gap has been increasing between small and medium-size firms and large firms as implied in Figure 2-10. The Figure

FIGURE 2-10 RATIO OF VALUE-ADDED PER WORKER OF SMEs TO LARGE FIRMS

Note: The ratio is calculated as the value-added per worker of SMEs over the value-added per worker of firms with no less than 300 employees.

Source: Korea Federation of Small and Medium Business (<http://stat.kfsb.or.kr>).

shows the ratio of value-added per worker of small and medium-size firms to that of large firms.²⁵ Given the small and large firms are closely connected through sub-contracts, one would expect that the demand for small firms' outputs is a derived demand from that for large firms' outputs. Thus in a competitive environment, one should expect that the profitability or the value-added per worker would move similarly among large and small firms. However, the Figure shows that the ratio of value-added between small and large firms has been steadily falling throughout the 1990s and the early 2000s. The value-added per worker of small and medium-size firms were 43% of that of large firms in 1994, but it has fallen to 33% by 2003. The ratio is even smaller among small firms. The value-added per worker of firms with 50~299 employees were only 56% of that of large firms in 1994, which has further fallen to 46% by 2003. Among firms with 5~49 employees, it was only 34% of that of large firms in 1994, and it has fallen to 25% by 2003. As a result, the gap in value-added per worker has been widening among firms with varying sizes, and steadily so throughout the 1990s and the early 2000s.

25) Large firms are those with 300 or more employees.

The increasing gap in profitability suggests the possibility that monopsony power of large firms has strengthened. As mentioned before, profitability would move similarly between small and large firms under such subcontracting network if it were competitive environment. Instead, monopsony power of large firms has allowed themselves to maintain profitability while their subcontractors have suffered from reduced profits. Table 2-7 shows some evidence for this interpretation. According to the table, subcontracted price received by small and medium-size firms has fallen, or risen less, between 2001 and 2003. As shown in the first row of the table, the price of parts, intermediate inputs, final products and major products are 2.5~3.2% lower in 2003. During the same period, producer's price index rose by .2% among manufactured goods and .8% among all goods, and thus the real price of subcontracted goods must have fallen even more.

Table 2-7 shows a clear size-pattern, too. Subcontracted price has fallen much more among smaller firms. For example among firms with 5~9 employees, the price fell by 4.4~5.4%. Among firms with 200~299 employees, however, the price rose by 3.2~19.1% between 2001 and 2003. This implies that smaller firms' profit margins have been more squeezed when dealing with large downstream firms. Given the average real wages rose by 11.1% among manufacturing firms, one can imagine the economic hardship these small firms had to go through when their output price has been cut. Indeed, the fraction of small and medium-size firms that reported a decline in profitability has been increasing. 32.6% of firms reported such a decline in 1999, 39.0% in 2000, and 41.0% in 2001, although these were the years through which the econ-

TABLE 2-7 INDEX OF SUBCONTRACTED PRICE IN 2003 (2001=100)

Year=2003	Type of Outputs Produced under Subcontracts			
	Parts	Intermediate Inputs	Final Products	Major Products ⁺⁾
All	96.8	96.9	97.5	97.0
5 ~ 9	95.7	94.7	94.6	94.8
10 ~ 19	99.1	100.3	100.3	99.9
20 ~ 49	94.6	97.0	100.8	97.9
50 ~ 99	97.9	97.5	101.9	98.7
100 ~ 199	101.5	100.5	100.6	99.1
200 ~ 299	119.1	106.0	109.8	103.2

Note: +) Major products include the single item with the largest sales from each firm.

Source: Korea Federation of Small and Medium Business (<http://stat.kfsb.or.kr>).

omy had been improving from the economic crisis in 1998. The two most important reasons for the decline in profitability cited by these suffering small firms were reduced demands and subcontract price cut, each of which accounted for 35% and 23% of all answers.²⁶

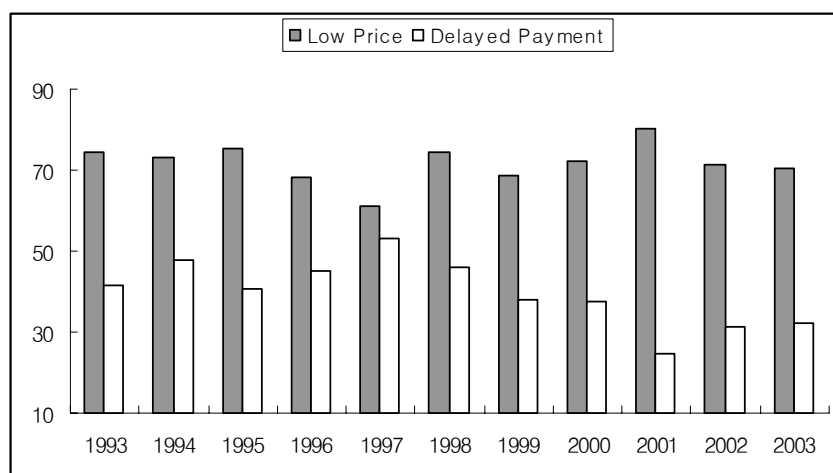
Low price is indeed cited as the most important among the many difficulties faced by the small and medium-size subcontracting firms. Figure 2-11 shows the pattern of answers for the multiple-answer question on the difficulties experienced in subcontracting. More than 70% of such firms answered low subcontracting price was the major difficulty. This fraction has remained stable, or somewhat increased since 1997. In addition, 20~50% of firms answered that delayed payment was another major difficulty. This fraction had been falling until 2001, since when it started to increase. Payment delay averaged almost 3 months in 2003. It was longer than 5 months in 1998 when large firms in Korea were suffering financial distresses through the economic crisis. This indicates that a hardship experienced by large firms is effectively shifted to smaller firms through lower price and delayed payment. Although the economic conditions were relatively better in the late 1990s and early 2000s, the small and medium-size firms' situation still did not appear to have improved, as evident from the falling subcontracted price and payment delay of up to 3 months. In all, these small and medium-size subcontracting firms appear to have been on quite an unfair ground when dealing with large downstream firms.

Concentration of market power among large firms through monopoly in the final goods market and monopsony in the subcontract market has allowed them to earn non-competitive rents, which gave an additional incentive for unionization. We have already seen in Table 2-4 that concentration of market power is closely associated with union organization rate and their premiums. In addition, the non-competitive rents have served as a buffer from the market forces for the large firms and their unions, and their collective bargaining ended up with a greater number of strikes (see Table 2-8). Firms with 300 or more employees account for only 0.2% of all firms in 2003, but their strikes accounted

26) See Korea Federation of Small and Medium Business (<http://stat.kfsb.or.kr>) for the original questionnaires.

FIGURE 2-11 DIFFICULTIES OF SMALL AND MEDIUM-SIZE FIRMS ON SUBCONTRACTING

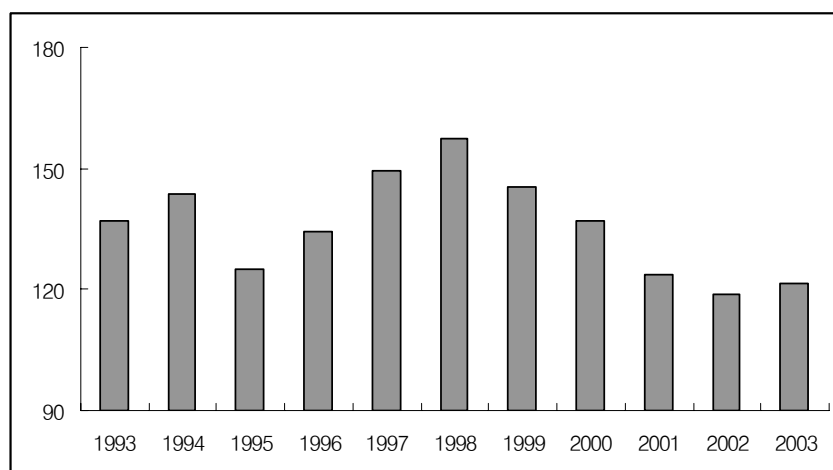
(A) Most Frequently Cited Difficulties of Subcontracting SMEs (%)



Note: Firms are asked to give multiple answers in the Survey.

Source: Korea Federation of Small and Medium Business (<http://stat.kfsb.or.kr>).

(B) Average Length of Payment Delay in Sub-contracting (days)

Source: Korea Federation of Small and Medium Business (<http://stat.kfsb.or.kr>).

for 31.9% of all strikes that took place in 2003. That is, the concentration of unions among a few large monopolistic firms has been the main reason why Korea's unionism has remained confrontational despite be-

ing enterprise-level unionism.

Unions have been concentrated among the large firms, which possess both monopoly power in the final goods market and monopsony power over small and medium-size firms on subcontracts. One very important aspect to note is that, through the economy-wide subcontracting structure with many small highly dependent upstream firms, the burden of economic distortions arising from union contracts at large downstream firms is also shifted to the small upstream firms and their workers. For example, higher wages set by unions often led to lower subcontract prices as those large firms tried to maintain their profit margins. Prolonged labor disputes in large downstream firms often led to delayed payment or a sharp cut in contracts, which caused additional distress on small subcontracting firms' profitability. The profitability gap has been increasing among firms of varying sizes, and small firms have been suffering serious economic hardship even when the economy was relatively booming. Confrontational unionism in these large firms, which has been sustained only through their market power and non-competitive rents, has caused an insider/outsider problem mostly in the form of widening gap in economic outcomes between unionized workers in large firms and the rest of the workers working in smaller firms at lower wages. This effect has been sizeable despite the low unionization rate, as the large unionized firms have commanded a hugely disproportionate amount of resources through subcontracting networks.

TABLE 2-8 STRIKE FREQUENCY BY FIRM SIZE

	All	Firm Size (Employment)			
		<100	100~299	300~999	≥1,000
1995	88	21(23.9)	27(30.7)	28(31.8)	12(13.6)
1996	85	13(15.3)	25(29.4)	23(27.1)	24(28.2)
1997	78	19(24.4)	26(33.3)	19(24.4)	14(17.9)
1998	129	27(20.9)	35(27.1)	34(26.4)	33(25.6)
1999	198	44(22.2)	55(27.8)	38(19.2)	61(30.8)
2000	250	72(28.8)	58(23.2)	65(26.0)	55(22.0)
2001	235	83(35.3)	66(28.1)	52(22.1)	34(14.5)
2002	322	105(32.6)	110(34.2)	64(19.9)	43(13.4)
2003	320	94(29.4)	124(38.8)	61(19.1)	41(12.8)
2004	462	187(40.5)	150(32.5)	69(14.9)	56(12.1)

Note: The numbers in parentheses are the percentage share of all strikes.

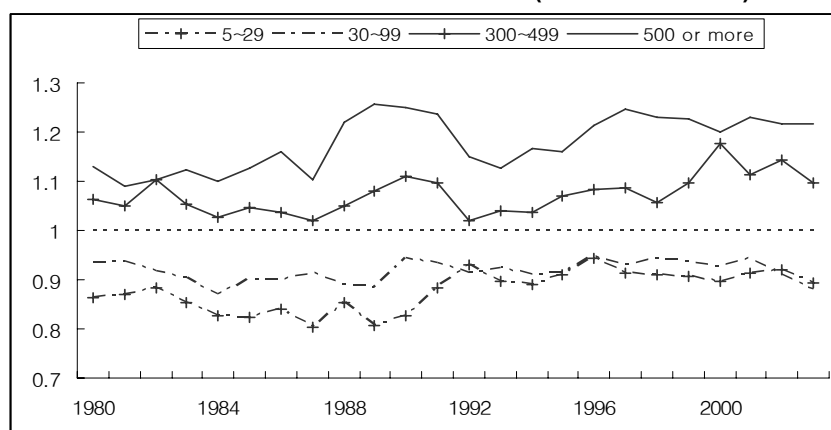
Source: Ministry of Labor, Korea.

3.2 Labor market outcomes: insider/outsider problem

As previously indicated in Figure 2-4, union workers tend to be relatively high wage workers in large firms, and their efforts to protect their interests have often undermined the interests of less-paid workers in small unorganized firms. Figure 2-12 indicates that firm-size wage differentials have been widening between large firms (firms with 300+ employees) and small firms in Korea throughout the 1990s and the early 2000s.²⁷ It is interesting to see that relative wages have remained quite stable among firms with fewer than 300 workers, implying that there has been no widening in firm-size differentials among small and medium-size firms. The widening has mostly taken place between firms with 300+ workers (or large firms) and firms with fewer than 300 workers (small and medium-size firms).

Figure 2-13 shows the size differentials separately for union and non-union firms. Panel (A) of the Figure indicates that firm-size differentials have been similarly widening in non-union firms as in Figure 2-

FIGURE 2-12 FIRM-SIZE WAGE DIFFERENTIALS (SIZE 100~299 = 1)



Source: The author's calculation from the Wage Structure Survey, the Ministry of Labor, Korea.

27) The average wage for each size group is calculated as a weighted average of cell-mean wages where the cells are defined over education and age. Also fixed weights are used for each cell so that the average wages do not depend on the composition of workers. The size differential is defined as the ratio of each size group's average wage to that of firms with 100~299 employees.

12. One difference is that the differentials show some widening even among small and medium-size firms among non-union firms. Panel (B) of the Figure, however, shows a completely different pattern. Among union firms, there has been little widening of firm-size differentials. The wage gap between the largest and smallest firms in 2003 is not much different from that of 1993. In particular, small firms (those with 5~99 employees) have fared somewhat better in terms of wages relative to medium-size firms (those with 100~299 employees), which is the opposite of what happened among non-union firms.

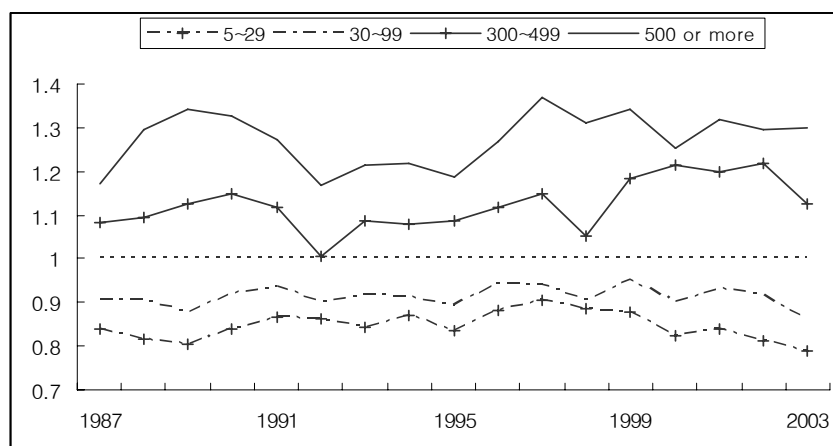
The Figure implies that union firms have fared relatively well in terms of wages whether they are small or large. However, wages have been falling among small and medium-size non-union firms in comparison to the large firms, which has been the cause of widening of firm-size differentials. As workers in small and medium-size firms are low wage workers, unions have contributed to wage compression among size groups among unionized firms, as indicated in Panel (B) of Figure 2-13. However as unions are quite concentrated among large firms and very rare among small firms, the falling relative wages of small non-union firms through the insider/outsider effect have had a dominating effect. As a result, unions in Korea have been one of the main reasons that cause the widening of economy-wide firm-size differentials.

Union premiums for workers in large unionized firms must have led to a *greater* inequality among wage and salary earners. Figure 2-14 shows the estimated Gini-coefficient among 25~54 years old male wage/salary workers over time, and compares it to a counterfactual series of Gini-coefficient under the assumption that union workers did not earn any union premiums. In the calculation, the union premiums estimated in Panel (B) of Figure 2-5 are used. The overall pattern of Gini-coefficient indicates that the distribution of wage and salary has been steadily widening since 1994. The counterfactual series shows the same pattern, and the level of Gini-coefficient is slightly smaller than that of the actual. For example, the actual Gini-coefficient is estimated at .246 in 2003, which is only higher by .002 than the counterfactual estimate at .246.

This difference in the actual and counter-factual Gini-coefficients

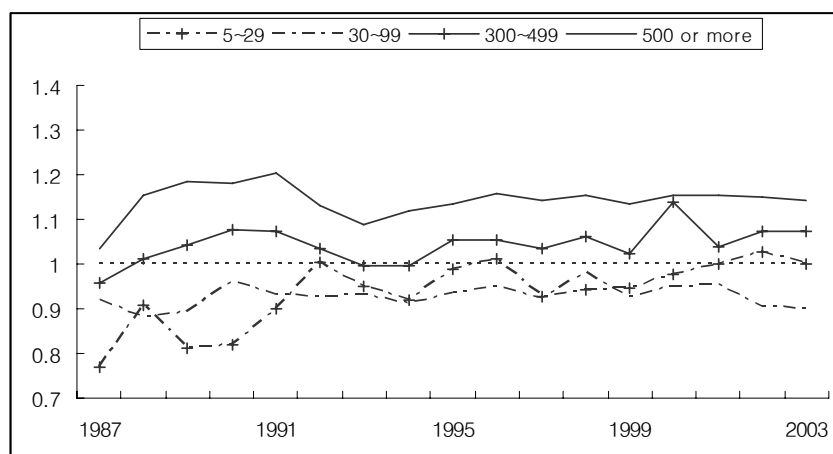
FIGURE 2-13 FIRM-SIZE WAGE DIFFERENTIALS IN NON-UNION AND UNION FIRMS (100~299 = 1)

(A) Non-Union Firms



Source: The author's calculation from the Wage Structure Survey, the Ministry of Labor, Korea.

(B) Union Firms



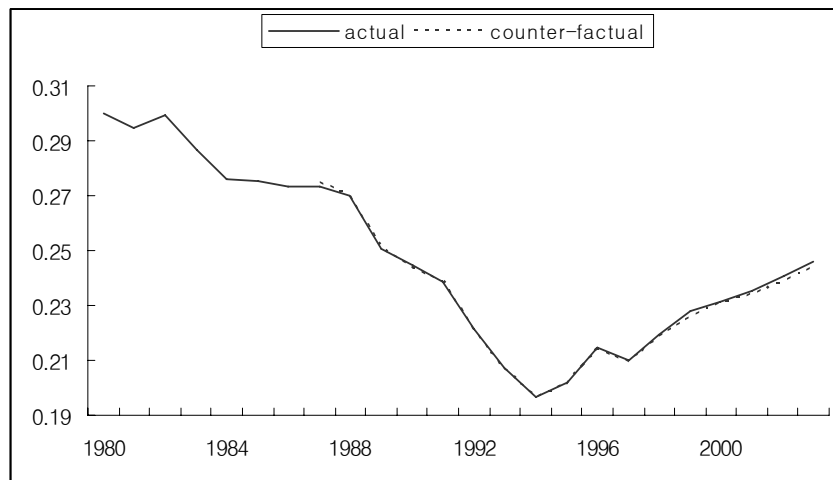
Source: The author's calculation from the Wage Structure Survey, the Ministry of Labor, Korea.

is by no means large. There are two reasons for such a small effect of union on wage inequality. First, these high-wage earning union workers in large monopolistic firms is only a small fraction of total employment. Second, the simple counterfactual series tends to understate union effect as non-union wages would have been higher if there were no unions. As

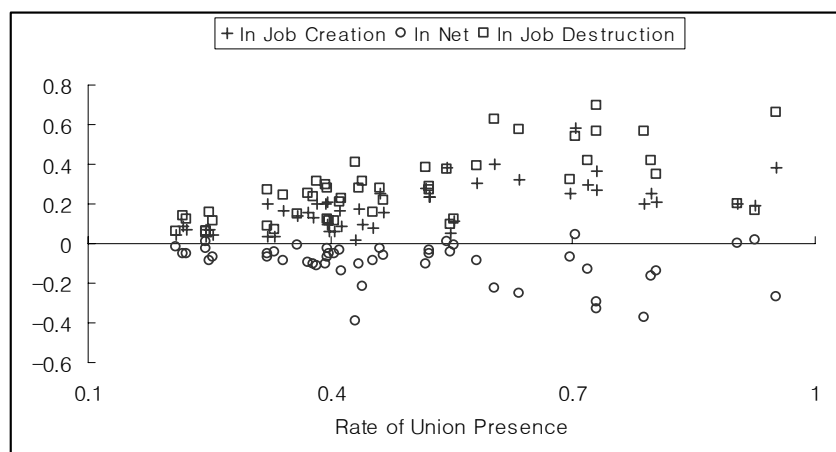
previously seen, high union premiums led to smaller employment, which must have increased labor supply and lowered wages in non-union sectors. Thus if it were not for unions, union workers would have earned lower wages and non-union workers would have earned higher wages than their current wages. The latter effect is not fully captured in the simple counter-factual estimate. Still, the implication of Figure 2-14 is quite clear; unions in Korea have *not* contributed *at all* to improvement in wage inequality, and if any, they tend to have increased it, unlike the unions in other developed countries.

Labor market outcomes of Korea's unionism through the insider/outsider problem have not been limited to wage effects. Firms' employment decisions are also distorted as the result of high union wages and strong employment protection. It was already shown in Figures 2-6 and 2-7 that the relative employment of union firms has been shrinking due to higher union premiums, reflecting that the number of high-paying jobs in large (union) firms has been decreasing. The distortion in employment, however, has not been limited to reduced "size" of high-paying jobs. The nature of new jobs created from the economy has also changed.

FIGURE 2-14 UNION EFFECT ON OVERALL WAGE INEQUALITY: GINI-COEFFICIENTS



Source: The author's calculation from the Wage Structure Survey, the Ministry of Labor, Korea.

FIGURE 2-15 UNION PRESENCE AND THE SHARE OF REGULAR JOBS

Source: The author's calculation from the Wage Structure Survey, the Ministry of Labor, and the Survey on Economically Active Population, the National Statistical Office, Korea.

Figure 2-15 shows that jobs have been more rapidly becoming “non-regular” in unionized sectors. Non-regular jobs are typically of short-term, not exceeding one year, and workers on such jobs are excluded from various statutory and non-statutory benefits such as national pension, retirement allowances, unemployment insurance and industrial accident insurance, not to mention their lower wages. Further, it is important to note that these non-regular workers are usually not covered by union contract even when a union is present in the firm.²⁸ The Figure, plotting the share of regular jobs in total job growth, destruction and net growth, shows that sectors with stronger union presence have seen relatively greater destruction of regular jobs, resulting in a faster net decline in regular jobs. Table 2-9 confirms the relationship numerically. The simple OLS estimates in the table indicate that the share of regular workers in total job growth has been 3.4% point higher among sectors with 10% point higher union share, the share in total job destruction has been 5.6% point higher among them, and as a result, the

28) Non-regular workers in large firms repeatedly asked for a membership of the regular workers' unions in their respective firms, but they were mostly declined by the unions (and told to form their own unions). As non-regular workers' wages are lower and their numbers are relatively small in each firm, it turns out to be almost impossible for them to form and maintain their own union.

TABLE 2-9 EFFECT OF UNION PRESENCE ON THE GROWTH OF REGULAR JOBS

	In Job Creation		In Job Destruction		Net Creation	
Rate of Union Presence	.342 (.041)	.350 (.040)	.561 (.061)	.561 (.061)	-.219 (.037)	-.211 (.035)
Year Dummies	No	Yes	No	Yes	No	Yes
N	51	51	51	51	51	51
Adjusted-R ²	.573	.608	.629	.623	.389	.450

Note: Regressions are weighted with total job changes, or the sum of newly created jobs and destroyed jobs.

Source: The author's calculation from the Wage Structure Survey, the Ministry of Labor, and the Survey on Economically Active Population, the National Statistical Office, Korea.

regular job's share in net job growth (destruction) has been 2.2% point lower (higher).

The reason why union presence affects the composition of job changes, or the reason why employers shifted their job offers toward non-regular jobs in unionized sectors could be many, but the recent establishment survey by Korea Labor Institute indicates that the main reason is most likely to be firms' efforts to avoid high wage and employment adjustment costs associated with regular (union) workers (Ahn, Kim, and Lee, 2002). The share of firms in the survey that answered they used non-regular positions because they were cheaper or because it was much easier to dismiss workers on such positions exceeded 70%. They also reported that workers on non-regular positions were less productive than those on permanent positions as the former lacked commitment and loyalty to the firm, but nevertheless these firms opted to use non-regular positions because savings on wage and employment adjustment costs outweighed reduced productivity.

High employment adjustment costs in Korea, in principle, reflect the strict Labor Standard Law, but union has also had a substantial, and probably greater, influence on the costs. Redundancy layoff, previously handled by the Supreme Court's ruling instead of a law, was first introduced into the Labor Standard Law in 1998 when Korea pursued structural reform through the economic crisis. The newly enacted law was, however, hardly viewed to have facilitated firms' employment adjustment. The procedures which the law mandates firms to follow before initiating redundancy layoff are quite obscurely stated and as a result, each redundancy case is highly subject to legal disputes. For example,

the law states that firms must exhaust all means to avoid redundancy layoff, and it is highly unclear what the “all means to avoid redundancy” constitute. It also states that firms must consult sincerely with their union or worker representative on the need and scope of redundancy layoff. Unions have often declined to come to the bargaining table over the issues on redundancy layoff, and as a result, firms often have not had the chance to consult with unions.²⁹

These requirements for redundancy, originally intended to suppress excessive and unnecessary layoffs, imposed non-trivial costs on firms undertaking restructuring. Layoffs almost always brought about confrontation between unions and employers, and the proliferation of this new wave of conflicts was partly attributable to the new law. Union’s opposition to layoff made it almost impossible for firms to satisfy all the procedural conditions for redundancy. The case of Hyundai Motor Co. was quite exemplary. The company maintained meager 40-percent utilization rate in March 1998, when it declared its plan for a mass layoff of over 8,000 workers. Following the new procedure, it first offered severance compensation to voluntarily leaving workers, and gave pink slips to 2,678 employees on July 20. Union launched a strike against the layoff plan, which lasted for a month and half, and the agreement reached through the intervention and mediation of the Labor Minister was rejected by rank-and-file members. The case finally closed with layoff of 277 employees, or only 10 percent of the initial target. The company shed a much greater number of workers, but only through “honorary retirement,” which was a type of contract buyout with generous severance pay.

The case of Hyundai Motor Co. clearly illustrated how difficult to adjust workforce in Korea under the newly introduced layoff law. The union declined to consult at all with the company on layoff issue, and simply denied layoff. The finally agreed layoff of 277 employees did not go smoothly, either. The union leadership was brought to a vote of confidence regarding the agreement by rank-and-file members, which the leadership survived only by a small margin. The case effectively gave

29) National-level unions in Korea participated in the law-making through the Tri-Partite Commission, an *ad hoc* committee set by then the president Kim Dae Jung, and they have influenced the law in such a way making redundancy layoff more difficult.

birth to a highly costly route of employment adjustment, namely honorary retirement. Firms have to induce voluntary separation by offering generous severance compensation packages. This new and costly method was frequently used in the ensuing financial sector and public enterprise restructuring.

Faced with such a high cost of employment adjustment, firms changed their hiring strategies. One such change was the extensive use of non-regular positions with a short-term contract. Lower wages on such positions were an advantage of using non-regular positions, but it was rather small as the productivity was also lower on non-regular positions due to lack of worker commitment and loyalty to the firm. However with such a short-term contract, firms do not have to worry much about the potential layoff costs, which induced many firms to use non-regular workers. As a result, the use of non-regular workers was more extensive in the sectors with stronger union presence.

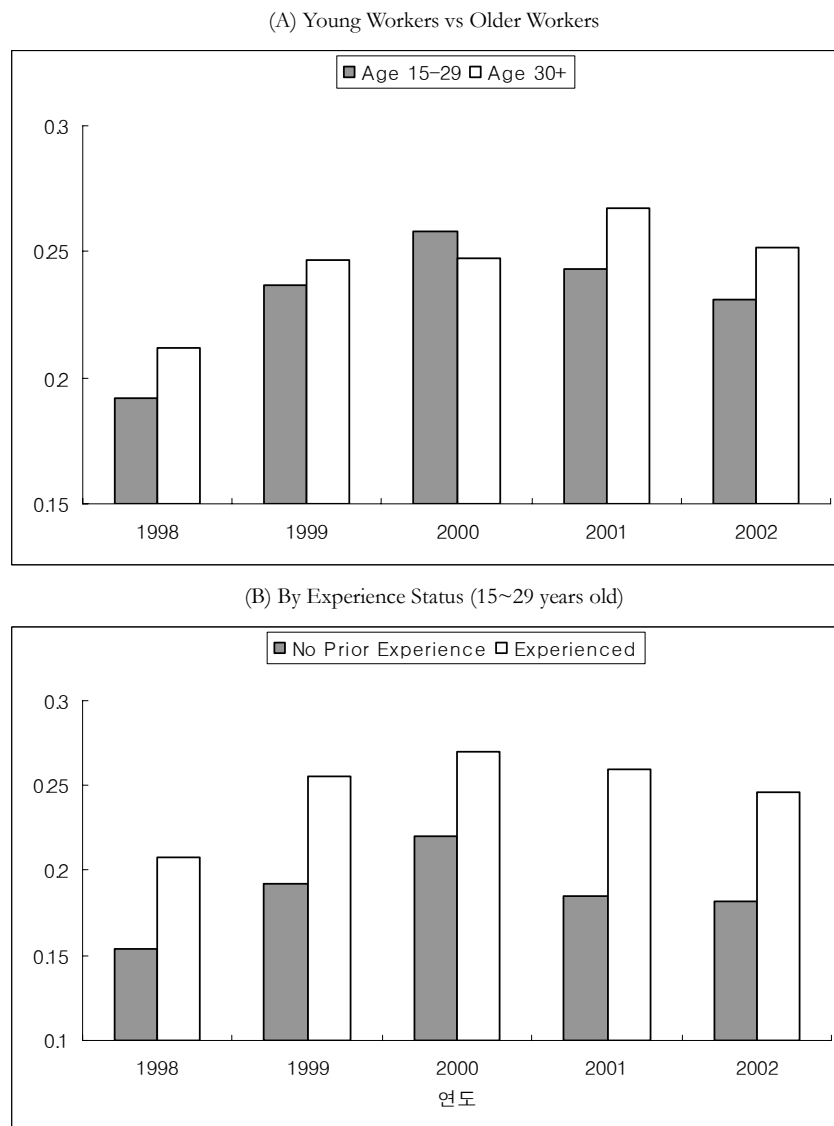
Another change in hiring strategy linked to high employment adjustment costs is that workers with prior work experience has been preferred by firms to those freshly out of school. Lazear (1998) argues that options to lay off workers are likely to induce firms to favor job applicants with wider distribution of ability, or risky workers, because their option values are higher. The result of high layoff costs in Korea is that it has become increasingly difficult for fresh graduates to find a decent job.

Figure 2-16 shows the difficulty of young workers in job searches. The Figure plots monthly exit hazard rate of men from unemployment by age and their prior work experience. Panel (A) indicates that the exit hazard has been lower and fallen rather more rapidly among young workers (15~29 years old) compared to older workers (30 years old or older). The recent increase in youth unemployment reflects this relative fall of exit hazard rate among younger job searchers.³⁰ Panel (B) indicates that such difficulty to find a job among young job searchers is rather limited to those with no prior work experience. Panel (B) plots the exit hazard rate among young job searchers (15~29 years old) by

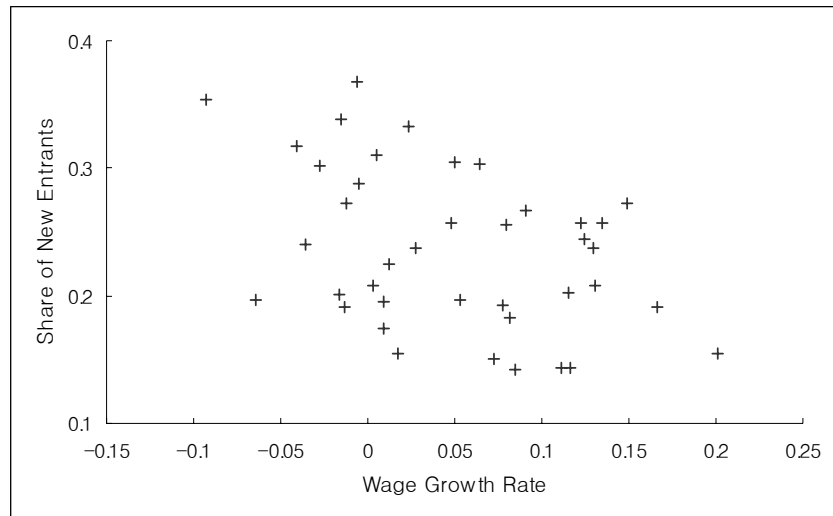
30) The share of 20~29 years old men in total unemployment increased from 33.2% in 1999 to 41.4% in 2003 (Kim, 2004).

their prior experience status, and it shows that the exit hazard rate has fallen mostly among those with no experience.

FIGURE 2-16 MONTHLY EXIT HAZARD RATE FROM UNEMPLOYMENT OF MALE JOB SEARCHERS



Source: Reproduced from Kim (2004).

FIGURE 2-17 WAGE GROWTH RATE AND THE SHARE OF NEW ENTRANTS IN NEW HIRES

Source: Reproduced from Kim (2004).

Although labor unions' opposition to mass layoffs is an important factor of employment adjustment costs, high employment adjustment costs induced from the Labor Standard Law concern both union and non-union sectors in Korea. As a result, the shift of hiring toward workers with prior experience is rather common. However, employment of young and fresh graduates appears to have been more suppressed in the union sectors experiencing higher wage growth. Kim (2004) reports that wage growth rate and the share of fresh graduates in new employment is negatively correlated at -0.480 across sectors, of which pattern is reproduced in Figure 2-17 below. Given that high union wages and wage growth rate suppressed new job growth in the first place, new job openings must have been substantially reduced for young fresh graduates in high-paying union sectors.

4. Concluding Remarks

As is true in many other unions, unions in Korea tend to raise the

wage level in unionized firms. The wage increase in unionized firms, in turn, induces lower employment and fewer job openings, which are usually associated with welfare or efficiency loss. At the same time, unions tend to reduce job turnovers, either through well-managed grievance procedures or higher wages, of which a part can be regarded as improving union firms' overall productivity if it is the former. These effects are rather typical of any unions in capitalist economies. There are, however, some idiosyncratic union effects on the labor market outcomes in Korea. Unlike other countries, there is no evidence that Korea's unions have contributed to the reduction of wage inequality. If any, they have worsened wage inequality. Union workers in large monopolistic firms have kept earning higher wages while non-union workers in small and medium-size firms have suffered from reduced profit margins and lower wages. Further, newly created jobs have become increasingly low-paid and non-regular, which can be associated with high union wages and employment adjustment costs. Young market entrants fresh out of their schools have had a greater difficulty in locating a job, which is partly attributable to the change in firms' hiring strategy favoring experienced workers with known ability when faced with high union wages and employment adjustment costs.

These non-typical labor market impacts of Korea's unions arise mostly from the fact that union workers are relatively better-paid workers in large monopolistic firms. In other countries, union workers are relatively low-wage workers in overall wage distribution, and their efforts to raise wages tend to reduce wage inequality. Thus the efficiency loss associated with higher union wages can be regarded as the price the economy pays for reduced inequality. The case is reverse in Korea. Union wage effects result in both efficiency loss through lower employment and no improvement in inequality, or greater inequality.

The distortions in the size and types of newly created jobs simply reflect that outsiders in Korean labor market are the low-wage workers, and insiders are the union workers. The insiders' efforts to raise wages and protect jobs usually cost the wages and jobs of outsiders, who, in Korea, happen to be low-wage workers in smaller firms and the jobless. Reduced job creation in high wage union firms push young job searchers to low-wage non-union firms, which additionally reduce non-union

wages.

Union workers tend to be high-wage workers in overall wage distribution because unions are highly concentrated in large firms in Korea. This concentration of unions among large firms is one of the three main reasons why the labor market impacts of Korea's unions are distinct from those of other unions. The second reason is that these large firms in Korea often possess a strong market power through their monopolistic position in the product markets and monopsonistic position in the intermediate product markets. The latter arises from the complicated subcontract network in which most of small and medium-size non-union firms produce for large downstream firms. Under such subcontracting relationship in which final goods are produced almost exclusively by large downstream firms, small and medium-size upstream firms often tend to highly depend upon a single large downstream firm for their sales, and as a result, a prolonged work stoppage in the downstream firm would jeopardize the survival of many dependent upstream firms with fragile financial structure. The final reason is that the governments have selectively intervened in large firms' labor disputes to induce a quick agreement for fear of a series of bankruptcies among those small and medium-size firms. Despite the reasonable cause of intervention, the government has often failed to assume the role of neutral rule-enforcer. Instead, political bargaining was made between firms, unions and the government, which eventually induced an unhealthy mixture of economic and political issues on the bargaining tables.

As Pencavel (1996) notes, competition in the market is the key external mechanism that disciplines the internal relationship between union and management. Large firms in Korea are, however, not exposed to such market competition, and their non-competitive rents have allowed both unions and firms not to worry too much about the potential risk of reduced sales and loss of market share that a non-cooperative relationship would have resulted under a competitive market. Further, the series of selective interventions by the Korean governments has raised the bargaining powers of both sides as they were aware that the government would go a long distance to prevent their firms' bankruptcy fearing its potentially disastrous effects on the economy.

The Asian financial crisis in 1997~1998 was quite an important

moment for Korea's industrial and labor relations. During that time, a handful of large firms some of which were business conglomerates called Chaebol went bankrupt, which was previously unheard of in Korea. The fact that large firms were in fact exposed to such risks and the fact that the government could not guarantee their survival under true market pressures could have been a great lesson for both the large surviving firms and their unions. But the opportunity was almost wasted as the series of ensuing events let both business and unions remain politically no less influential.

In 1998, the government formed Tri-partite Committee, an ad hoc committee, consisting of business leaders, the national-level labor unions, and public officials, in an attempt to induce a social pact on the economic restructuring that was viewed essential for fighting the crisis. This very purpose was successfully fulfilled at the early stage of the crisis as business and labor unions agreed on several restructuring programs such as the enactment of redundancy law and a large scale policy package for reducing unemployment. The success led the Committee to remain permanent and become the place in which labor issues were to be discussed in the following years. The Committee has since been chaired by the politicians from the ruling party, and as a result, short-sighted political bargaining has been given priority over long-term economic consequences. Business and labor unions sometimes colluded and disputed at other times, and they have tried to sway the ruling party and the government in their favor. The politicians chairing the committee, instead of serving as a neutral rule-enforcer, have been more interested in drawing an agreement without much attention on its economic consequences.

The political influences obtained by business leaders and labor unions through the Committee have been a problem, mainly because they did not represent the entire economy. Business leaders tended to protect large firms' interests, and the national-level unions tried to protect their members, who were merely 10% of all employees as well as high-paid workers. As a result, their attempts to protect their own interests have left the less-privileged majority of the workers as outsiders. Moreover, the "outsiders" did not receive sufficient attention from the chairing politicians, either. Most of the issues dealt in the Committee have been

limited to “union” issues, not the issues for non-member workers whose number exceeded union workers by 9 times, and it was also often the case that labor disputes at a large individual firm were brought to this Committee and political exchanges were made.

The industrial policy called “Big Deal,” which was one of the economic restructuring programs deployed by the ruling party, was another contributor to the increase in political and market powers of the large firms. The idea behind the program was to merge large struggling firms’ assets to a large and healthy firm so that the utilization value of the assets could be increased. The result was, however, deepening of monopoly in major industries such as automobile and electronics. These industries were also those with the strongest and most militant unions. That is, the pattern of large monopolistic firms with strong unions has been intensified during the post-crisis period.

Through these post-crisis developments which were mostly engineered by the ruling party and the government, both the surviving large firms and labor unions could maintain or even enhance their political influences. Their market powers were no weaker than before, as they maintained monopoly power in the product market and monopsony power in the intermediate goods market. Indeed, these market powers appear to have become stronger as competition seriously weakened among large downstream firms in those major industries that experienced the “Big Deal” program. Given these, it is not surprising at all that the industrial and labor relations in Korea have still remained as confrontational as in the pre-crisis period, if not more so.

There has been a movement toward industrial-level organization of unions in Korea, which has recently seen some success in teachers’ union (the Korean Teachers & Education Workers’ Union) and medical workers’ unions (the National Health and Medical Workers’ Union). Debates are undergoing on the possibility that industrial-level unionism should reduce the insider/outsider problem of Korea’s unionism. To the extent that industry-level unions can extend their coverage to workers in small and medium-size firms, it is possible that the insider/outsider gap in wages and job opportunities decrease as a result. However, some important problems would still remain. First of all, unions in large firms enjoying substantial non-competitive rents are not

very willing to join the movement as it may reduce their own stakes. Such unwillingness has already been observed in the union's decline to admit non-regular workers in several large firms. Second, the literature indicates that economic performance tends to be poor under industry-level unionism. One reason is the reduced competition as industry-level bargaining takes wages out of competition. Another reason is that the insider/outsider type problem is still there where consumers and the jobless remain as outsiders. Third, the two recently formed industrial unions are in the sectors which, again, lack competition. Schools are under direct control of the Ministry of Education, and competition in any form among schools has effectively been prohibited. Pricing system of medical service is also under the government's strict control, and so is the entry of new hospitals. Thus many doubt that industrial unionism would develop in such a way that helps the outsiders.

The more fundamental approach to the problem is to tackle the two main sources of "confrontational unionism." First, it is the excessive market powers, monopolistic and monopsonistic, that need to be reduced through effective competition promotion policies. Such policies may include opening further the domestic market to foreign competition, enforcing the anti-trust laws more stringently, establishing healthier capital markets, and promoting entrepreneurship among small and medium-size firms. Second, the government must remain neutral in industrial and labor relations as a rule-enforcer, not as a mediator with political motives. Series of interventions in establishment-level labor disputes in the past has led to the convention that a dispute in large firms automatically becomes a social and political issue. Given the tendency of government's intervention, a dispute in a single firm has often brought about secondary actions to pressure the government and politicians for another intervention. In fact, unions have often formed a picket line against the government, not against their employers, and unions have also often brought social issues to the bargaining table with their employer that obviously could not be resolved between them. All these atypical aspects of Korea's unionism are very likely to have rooted from the sheer tendency of its government to intervene in labor disputes at individual firm level.

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Chapter 3

Industrial Relations and Union Politics in Large Firms in South Korea

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1. Introduction

The large firm union movement has been representative of the dynamics of the militant labor movement in Korea since 1987. The large firm union movement has been an important actor that strived to expand the workplace democracy in opposition to the authoritarian state and *Chaebol* (the conglomerates based upon the domination of owner families) and has continually produced adversary industrial relations through mass mobilization and repeated strikes. The militancy of large-firm workers has become the symbol of explosive and strong labor movement, and has brought about the high cost of bargaining and inefficiency of industrial relations in South Korea.

However, the mobilization capacity of labor unions in the workplace has been seriously weakened with business restructuring and expansion of flexibility of the labor market since the East Asian economic crisis of 1997, because the pragmatic attitude of workers in large firms and the segregation of the labor market have strengthened. The possibility of exchange between economic interests of permanent workers and industrial peace in large firms that have monopolistic status in product markets has been increasing at the sacrifice of non-regular workers and medium-small firm workers. Owing to the increasing pragmatic attitude of large firm workers and the decreasing solidarity orientation of large-

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size enterprise unions, there are cases of stable cooperative industrial relations in which the management plays a leading role in restricting industrial conflict within predictable ranges, with an increase in the institutionalization of conflict-resolving methods

However, many analysts agree that many large enterprise unions still choose militant strategies rather than collaboration with employers and show pragmatic attitudes for pursuing the economic interest of union members instead of solidarity orientation toward the other weak workers in a labor market. The preference of large enterprise unions for militant strategies and their pragmatic orientation is summarized in the term “militant economism”. Due to increasing criticism for their militant economism, large enterprise unions are facing social isolation and a crisis of legitimacy. The crisis of the large firm union movement leads to instability and inefficiency of industrial relations in large firms in the private sector that have strategic importance in the Korean economy, on the one hand, and restricts the potential and the role of social movement forces, on the other hand. The militancy of enterprise unions and the adversary industrial relations in large firms threaten continuous economic development from the viewpoint of the state and the employers, and at the same time, the pragmatic orientation of large firm workers and a lack of social movement orientation of large firm unions hinder the development of working-class solidarity and expansion of democracy from the standpoint of social movement groups.

The purpose of this study is to explain why large-firm enterprise unions choose a militant strategy instead of a cooperative strategy with employers and why they show a pragmatic attitude that they pursue the economic interest of only union members instead of a solidarity orientation toward other weak workers.

First, why are many large enterprise unions in South Korea still militant, in spite of the relatively high wage and generous company welfare? While labor market segregation by business size and the pragmatic attitude of large enterprise unions for the economic interest of union members have strengthened since the economic crisis of 1997, industrial relations of conflict and confrontation instead of cooperative partnerships with employers has been produced? Above all, the production of adversary industrial relations is a result of the militant strategy of large

enterprise unions. Thus, it is necessary to explain why large enterprise unions continue to choose militant strategies and whether their militancy will continue in the future.

Second, why do the large enterprise unions in South Korea have a pragmatic attitude due to which they pursue only the economic interest of union members instead of a solidarity orientation toward other weak workers? Why is the large firm union movement, which has led the “democratic independent union movement” orienting the working-class solidarity with strong opposition against the employers since 1987, becoming an interest group movement that devotes itself only to the economic interest of the permanent workers of large firms, while being indifferent to social solidarity with other workers? What kind of changes have the large firm unions experienced and what has happened within the large-firm union movement? These are the questions about the historical changes that the large-firm union movement has experienced from 1987 to the present.

On the topic of a choice between solidarity and pragmatic orientation or between militancy and cooperation of the large-firm unions in South Korea, this study pays attention to the power relations between the management and union at the workplace level and the internal politics of labor unions as two important factors that have strengthened militant economism of the large-firm union movement. This study will analyze how the dual process of production politics and union politics at the workplace level influences the choice of a militant strategy by the large-firm unions. This study will focus on how the union’s shopfloor power and union internal politics have influenced the variation of large-firm industrial relations and what the factors that influence the strategic choice of large enterprise unions are.

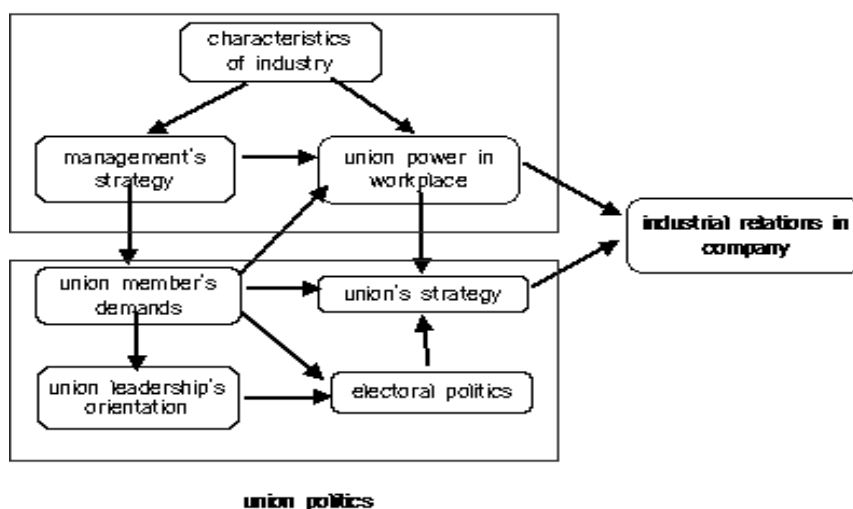
The concept of “the politics of production” is different from state politics and means the struggles at the workplace level to gain control over the means of production¹. In South Korea, where collective bargaining is conducted at the enterprise level, the workplace struggles in-

1) Politics of production is the concept on the issues of control of production process and includes the struggles of workers in the sphere of production and the regulations of political mechanism on the struggles. (Burawoy, 1985:7-15,152)

clude not only the issues of labor control, but also wage issues. *Politics of production* can be defined as the process of struggle and bargaining between labor and capital on the wage and control issues at the enterprise level. *Union politics* can be defined as the process of competition, conflict and compromise among the actors within the union for acquiring union power and taking part in the decision-making of the union.

Politics of production means an interaction among factors such as management's strategy, union members' demands, and unions' strategies. Also, union politics means the process of competition, conflict and compromise among the union leadership, delegates, and shopfloor activists organizations (SAO) and includes the relationship between union and members, that is, the process by which union leadership is influenced by members' demands and by which it influences to the members' demands. Union politics is not a simple strategic interaction among the actors within the labor union. The space of union politics is restricted by the politics of production and union members' consciousness and condition. Thus, large-firm industrial relations are developed through the dual process of politics of production and union politics. The causal relationship among the variables can be seen in the following diagram (Figure 3-1).

FIGURE 3-1 ANALYTICAL FRAMEWORK OF UNION ACTION AND LARGE- FIRM IR



This chapter consists of three sections. The first section examines the characteristics of the democratic independent union movement since 1987 and how the union movement in large firms has developed a unique collective identity of militant economism under the 1987 Labor Regime. The second section analyzes the politics of production and union action in the process of the institutionalization of large-firm industrial relations since the mid-1990s. In particular, it analyzes how the changes of the shopfloor power of labor unions and management's changing HRM have interacted with each other and have created diversity of union action and industrial relations in large firms. The third section analyzes union politics and the relationship between the union and its members. In particular, it analyses how the changes of union members' consciousness and condition have influenced the union actions.

2. The Changes of the Labor Regime and Democratic Union Movement Since 1987

2.1 The transformation of the labor regime since 1987

The industrial Relations (IR) system in South Korea experienced two great transformations in 1987 and 1997. The first transformation was triggered by the Great Worker Struggle in 1987 which established the so-called *1987 Labor Regime*. The second transformation came after the financial crisis in 1997 which directed the IR system towards a neo-liberal labor regime.

Before 1987, the economic development model of South Korea was based upon the price competitiveness in the export market and included factors such as low wages and long working hours, massive investment and mass production by *Chaebols*, and state repression of the labor resistance against factory tyranny. The direct intervention of the authoritarian state on industrial relations was a key mechanism for securing the capital accumulation regime based on low wages and long working hours for workers, the repression of the labor movement and de-politicization of it, and labor discipline in the workplace. In particular,

labor law reform by the authoritarian regime in 1980 totally denied the citizenship of labor in the workplace. The legal, administrative, and physical repression of the workers' basic rights under the Authoritarian Labor Regime (ALR) made it impossible to have autonomous collective bargaining between the management and union, and the institutionalization of the enterprise union system by the authoritarian state caused the structure of labor unions to be fragmented at the enterprise level and confined the activity of labor unions to purely economic activities. Under the ALR, the management could continue to preserve labor control by despotic domination in a military fashion at the enterprise level.

The democratic transition and labor uprising in 1987 was a critical juncture for dismantling of the ALR. The explosive wage increase of workers threatened the capital accumulation regime based on low wages of workers. The spread of democratic independent labor unions and autonomous collective bargaining was a process of establishing basic labor rights at the workplace level. However, the dismantling of the ALR as a whole was incomplete and the citizenship of labor was restricted to enterprise level. In particular, the legal restrictions on basic labor rights, such as the ban on dual unionism, the ban on third party intervention, the ban on political activities of labor unions were preserved². These three legal provisions were the key mechanisms for maintaining the ALR and hindered labor unions from achieving class solidarity at the national level.

While the key elements of the ALR weren't abolished, major changes occurred in power relations and interaction patterns among labor, capital, and state. As militant mobilization of workers increased under the ALR, the dynamics of the labor movement and repressive responses of the authoritarian state and *Chaebols* started to reproduce adversary IR in many large firms. It was impossible to enforce low wages and despotic workplace discipline. The massive mobilization of labor considerably improved the wage and working condition of workers.

2) The ban on third party intervention was a legal provision for confining IR to the enterprise level. The ban on the dual unionism was a legal provision for restricting the workers' right of organization and maintaining FKTU's right of monopolistic representation of workers' interest. And the ban on political activities of labor union was a legal provision for restricting the activity of labor unions to pure economic issues.

The gradual process of dismantling the ALR and the transformation of labor regime after 1987 can be divided into three stages; the first is the partial dismantling and increasing contradiction of the ALR under the Roh Taewoo government, 1987-1992; the second is the fierce contest of labor, capital and state over the direction of the change of the labor regime under the Kim Youngsam government, 1993-1997; and the third is the transition to a neo-liberal labor regime under the Kim Dae-jung and Roh Muhyun governments from 1998 to the present.

Under the Roh government, 1987-1992, the change of the labor regime was brought about by a dynamic labor mobilization after 1987. Even though the transition to democracy of 1987 was a restricted democratization that failed in breaking down the authoritarian political regime, the dynamics of democratization made it impossible for the authoritarian state to intervene directly in IR. At the enterprise level, fierce collisions between massive labor mobilizations and private violence by the employers over the recognition of democratic independent labor unions, workplace democratization, and substantial wage increases continued to happen. The state returned to repression of the labor movement after the political reaction by establishing conservative coalitions of regional parties in 1990.

The state attempted to prevent enterprise unions from developing national solidarity and made desperate efforts to incapacitate the Chunnoyhup (Korean Trade Union Congress: KTUC), which represented a radical labor movement. Therefore, the labor politics under the Roh government was developed as a series of clashes of physical repression by the state and militant resistance by the organized labor.

Under the Roh government, the labor movement dynamically developed and partially succeeded in dismantling the ALR. First, the labor movement debilitated the ALR, which had denied the workers' basic rights, succeeding in institutionalizing the right of organization and collective bargaining by explosive labor mobilization during 1987-89. Second, organized labor debilitated repressive labor discipline by acquiring the shopfloor power of labor union and intensified the contradiction of capital accumulation based on low wages and long working hours by acquiring rapid wage increases. Third, organized labor succeeded in establishing a base for national solidarity and a national organization of

democratic independent unionism by expanding workers' struggles to regional or national joint struggles. These struggles made a threat against the institutional base of the ALR, which established corporatist labor control by monopolistic interest representation of the FKTU. New changes deepened a crisis of the authoritarian development model including such changes as the institutionalization of collective bargaining at the enterprise level, increasing the shopfloor power of labor unions, weakening labor discipline, and rapid wage increases. However, the authoritarian state adhered to institutional frame of ALR. The internal contradiction of ALR was deepening.

Under the Kim Youngsam government, 1993-1997, a fierce contest among organized labor, capital and the state over the direction of changes in labor regime continued. The state attempted to establish a kind of social dialogue to reform the IR system, which had come to a standstill. The employers attempted to overcome a crisis of development model and restore labor discipline in the workplace with new management strategies (NMS) and labor market flexibility. At the same time, organized labor accelerated their effort towards a national organization of democratic independent unionism. Kim Youngsam government's plan for the establishment of a new IR in 1996 was to replace the weakened ALR with a Neo-liberal Labor Regime based on market discipline. The government wanted the unions to accept the flexible use of labor force in exchange for the workers' basic rights. The government's attempts were frustrated by a national general strike against a unilateral reform of labor law in 1996-1997.

On the whole, the dismantling of the ALR proceeded partially and gradually until the financial crisis of 1997 and a dual structure that included the institutionalization of collective bargaining at the enterprise level and the exclusion of labor unions from decision-making at the socio-political level was established. The 1987 Labor Regime that was sustained during the years 1987-1997 can be defined as a transitory labor regime that lacked an institutionalized IR at the socio-political level, accompanying high conflict and antagonistic mistrust at the workplace level (Roh, 1997; Lim, 1999; Chang, 1999). This labor regime was characterized by a highly decentralized, fragmented IR at the enterprise level, high conflict between the management and union, and institutional in-

stability that could have been prolonged by a dynamic labor movement.³

Therefore, the 1987 Labor Regime didn't have an accordant structure of its internal elements and was a contradictory mixture of past heritage and new changes. The 1987 Labor Regime included 1) some heritage of the ALR such as restrictions on basic labor rights, and the state's direct intervention on the IR, the management's union avoidance strategy, 2) some neo-liberal elements such as labor market flexibility, the abolishment of patriarchal labor protection, and labor-exclusive rationalization, 3) the experiments of social corporatism like a centralized wage agreement, and the IR reform commission, 4) mass mobilization of workers and class solidarity within the labor movement. The IR actors couldn't reach any consensus over the direction of the transformation of the labor regime after 1987 in the context of a stalemate of power relations among them. While the process of the gradual dismantling of ALR was finally put to an end by the reform of labor law in 1997, at the same time, it was a process of forming a Neo-liberal Labor Regime (NLR) to break through a crisis of capital accumulation by using labor market flexibility.

2.2 The democratic independent union movement and militant economism since 1987

The growth of the labor movement after 1987 was a process of national organization of the democratic union movement organizationally, and its result was the replacement of Chunnoyuhup (the Korean Trade Union Congress: KTUC) that had a radical ideological orientation towards the ideologically more moderate Chunnodae (Korean Council of Trade Union Representatives: KCTUR) and then Minju-nochong (Ko-

3) *Labor Regime* is a descriptive concept for emphasizing the interaction among labor policy of the state, demands of the labor movement, and the structure of the labor market. In South Korea, the concept of labor regime is different from an industrial relations system. It means the institutional frame of law, norms, and practice regulating the labor market and labor process, and it includes the state as a major actor and emphasizes political power relations as a strategic interaction among labor, capital, and the state. Contrary to the concept of the industrial relations system, it doesn't presuppose any consensus of norm or share of the same ideology. It is temporarily institutionalized by political power relations among the actors without any consensus on ideology and continues to become an object of strategic interaction among actors

rean Confederation of Trade Unions: KCTU). Because one of the key elements of the ALR was to block national solidarity of enterprise unions and maintain a state-controlled interest representation system, the two important aims of democratic unionism have been the national organization of democratic labor unions outside the state-controlled Hankook-nochong (Federation of Korean Trade Unions: FKTU) and the transition from an enterprise union system to an industrial union system. The democratic unionism after 1987 has developed from spontaneous regional solidarity and temporary national solidarity of new enterprise unions during the years of 1987-89, through the formation of KTUC as national organization militant unions and democratization of large enterprise unions in 1990-92, towards a national organization of democratic unionism towards KCTUR as an organization of jointly struggling democratic unions in 1993, and eventually the establishment of new KCTU as a national center in 1995..

The KTUC, which was established as an alternative national organization of militant unions in 1990, was the first attempt to formulate the collective identity of democratic unionism. Nodong-haebang (Labor liberation), which was an important slogan of the KTUC, was an expression of the demands for much more distribution of wealth to workers and for workplace democratization. However, to activists, it meant a revolutionary transformation of the capitalist economy. The important identities of the KTUC were the refusal to cooperate between capital and labor and the will to struggle militantly against the repression of the state and capital on independent labor unions, which was usually called *militant unionism*. In spite of a symbolic role as a national center of militant democratic unions, many large enterprise unions were afraid of repression by the state stemming from their joining the KTUC.

The establishment of the KCTUR in 1993, and eventually the establishment of the Minju-nochong (Korean Confederation of Trade Unions: KCTU) as a national center of democratic unions in 1995 meant that a process of national organization of democratic unionism against the collaborating FKTU was completed. The establishment of the KCTUR and eventually the KCTU were a result of combining the militant KTUC and the Korean Congress of Independent Industrial Trade

Union Federations (KCIIF), representing the white-collar unions and some major large enterprise unions. According to Lim Youngil, the establishment of the KCTUR in 1993 meant that Korean unionism was separated from the political labor movement, and that an ideologically moderate mass-movement oriented policy line won against the “Militant Unionism” of the KTUC within democratic unionism. (Lim, 1998:315-7)

Though the KCTU maintained the identity of refusing to cooperate with capital, it emphasized the struggles for social reform in various areas such as welfare, housing, education, and health-care as well as struggles for wage increase. The KCTU attempted to overcome the economism of the KTUC by changing the agenda of unionism from wage issues to the demands of white-collar workers such as democratization of the press, reform of education, and the health care reform.⁴ Also, the KCTU tried to appeal to public opinion beyond mass mobilization and participate in social dialogue. In the stage of institutionalization of the IR, the KCTU pursued a positive agenda formation and intervention strategy on social issues. However, the general strike in 1996-97 confirmed once again that a tradition of militant mobilization still strongly influenced the identity of democratic unionism.

Korean workers have had a shared understanding of the identity of democratic unionism since 1987. The union members’ perception of the desirable image of labor unions, the interests that labor unions should represent, the agenda of union activities, the way unions mobilized resources, and union governance strongly influenced the choice of strategies and activities of labor unions under the changing labor environment.⁵ The union action depended on the tradition of unionism that was formed during 1987-90 and the expectation and demands of union

4) The militant unionism of the KTUC was criticized by those who argued that excessive militancy hindered the expansion of the organizational capacity of the democratic union movement and economism focusing on wage increases didn't consider the issues of social reform and national interest beyond the working class, and therefore, lost the support of the public.

5) Labor unions always have their own concept and image of interests that they represent, agendas that they should acquire, the way resources should be mobilized, desirable forms of organization (Hyman, 1994). The actions of labor unions are accumulated, and the accumulated actions form the basis of an accepted pattern of union action and the image and identity of the union. This pattern of union actions and the image function as the ideological resources for inducing union members' loyalty as well as organizational resources linking labor unions and union members.

members on labor unions. The democratic union movement formed a clear collective identity that could be summarized as Militant Economism pursuing the improvement of working conditions of union members by participatory democracy and militant mobilization against employers and the state during 1987-1997.

First, the democratic union movement in South Korea has been a combination of independent enterprise unions composed of regular employees. From the aspect of interest representation, the enterprise unions played the role of expressing the comprehensive interests of homogeneous blue-collar workers at the enterprise level. The decentralized enterprise unions focused on realizing the short-term economic interests over wage and workplace issues and utilized defensive solidarity as a means against the suppression by the state and the employers.

Second, from the aspect of power resources, the enterprise unions in South Korea depended on direct action in market because they didn't have any political or legal resources. The unions' efforts for wage-hikes and workplace democracy since the great worker struggle in 1987 have reflected the explosive demands of union members, and the intransigent attitude of the state and the employers largely contributed to enterprise unions' choice of militancy strategy. Mass mobilization was strategically attractive to many union activists, because a lot of them regarded the strengthening of class-consciousness through militant struggles as the most important object of union activities.

Third, union democracy, with active participation of members in union activities was activated, because the sources of union militancy were explosive demands of union members and repression by the state and the employers. The activated participatory democracy made it possible to recall distrusted leadership easily, regardless of the terms of office. However, this paradoxically led to the instability of union leadership.

Fourth, while many enterprise unions showed leadership's accountability to union members, they failed to form a political agenda beyond a fragmented economic interest of permanent workers. The democratic union movement failed to function as an active political actor pursuing the collective interests of the working class as a whole, especially pursuing the social regulation on labor market and suggesting alternative so-

cioeconomic policies.

Finally, the enterprise unions in South Korea have focused on wage issues and workplace democracy with militant struggles. In spite of the structural weaknesses of fragmented enterprise unions, the Militant Economism of the democratic union movement has succeeded in realizing the economic interests of union members because of the growth of the Korean economy, the monopolistic extra-profit of the *Chaebol* companies, and the strong mobilization of large enterprise unions. Militant Economism has formed the most important part of the collective identity of the democratic union movement, because it was efficient in realizing general interests of the working class after 1987.

3. The Politics of Production and the IR in Large Firms

3.1 The development of the union movement and the politics of production in large firms

Many large enterprise unions of *Chaebol* companies have occupied a strategic position in the union movement and their strong militancy has been a substantial base of the dynamic labor movement and the adversary IR in South Korea. In 2003, there were a total of 34 large enterprise unions with 5,000 people and over, including 681,236 members, which amounted to 43.9% of all union members. Large enterprise unions with 500 people and over included 1,088,000 members, which amounted to 70.2% of all union members.⁶ In 2004, the number of members of the Federation of Metal Industry Trade Unions (FMITU) that included the major enterprise unions of *Chaebol* companies was 147,439 people, which made up 23.8% of all members of the KCTU. According to Table 3-1, 96.6% of FMITU union members belonged to the large enterprise unions with 500 people and over, and 56.3% of FMITU union members belonged to the large enterprise unions with 5,000 and over.

6) The large enterprise unions with 500 people and over included 86.7% of the KCTU members and the large enterprise unions with 5,000 person and over included 65.6% of the KCTU members in 2002.

Classifying workers by industry, in the automobile assembly industry, the number of union members was 66,033, which comprised 50.5% of all members of the FMITU. In the automobile parts industry, the number of union members was 13,089, which made up 10.0% of all members of the FMITU. In the shipbuilding industry, the number of union members was 33,802, which amounted to 25.7%. In the engineering industry, the number of union members was 11,162 people, which amounted to 8.5%.

The development of the large-firm union movement after 1987 can be divided into three stages; first, the stage of fierce conflict between labor and capital over the recognition of independent enterprise unions and the democratization of management-controlled unions in 1987-1992; second, the stage of competition between union and management for workplace power after the institutionalization of collective bargaining and introducing of New Management Strategies (NMS) during 1992-1997; Third, the stage of confrontation and compromise over employment issues after the disposal of insolvent enterprise and business restructuring since 1998.

First, fierce conflicts over the recognition of the independent enterprise unions and the democratization of management-controlled unions developed in many monopolistic large firms in 1987-1992. In many large firms, new independent unions strongly protested against the pri-

TABLE 3-1 THE NUMBER OF UNION MEMBERS BY INDUSTRY AND FIRM-SIZE IN THE FMITU

		Number of Employees	Number of Members	%	Non- regular Workers	Non-regular Workers/Union Members (%)
Industry	Auto assembly	92,961	66,033	50.5	32,358	49.0
	Automobile parts	20,453	13,089	10.0	3,989	30.5
	Shipbuilding	55,188	33,602	25.7	34,441	102.5
	Engineering	19,614	11,162	8.5	4,323	38.7
	Steel	7,006	4,849	3.7	2,953	60.9
	Electronics	3,500	1,528	1.2	465	30.4
Firm size	Under 200	2,391	1,335	1.0	1,045	78.3
	200-499	5,382	3,578	2.7	1,071	29.9
	500-999	10,168	6,475	5.0	2,036	31.4
	1000-4999	66,913	36,494	27.9	30,234	82.8
	5000 and over	114,484	82,922	63.4	44,172	53.3

Source: The FMITU, 2004

vate violence and union avoidance strategies of the management. The labor disputes in large firms included issues such as the democratization of the management-controlled unions, the struggles for the defense of independent unions against dismissal or arrest of the union leaders, and the struggles for wage increase.

The IR in large companies showed two characteristics during 1987-1992. While the management strived to control mass mobilization by accepting the demands of the workers for substantial wage increases, they took an intransigent attitude toward militant union leadership, using the intervention of governmental authority. The other characteristics of the IR in large firms was that while the struggles for the democratization of management-controlled unions in many large firms were popularly developed, they didn't succeed in major *Chaebol* companies such as Hyundai Motors, Daewoo Motors, and Hyundai Heavy Industry. The union leaders of large enterprises were not well-trained, experienced leaders who could develop spontaneous labor mobilization into organizational consolidation of labor unions and working-class solidarity under the strong repression by the state and pressure from the management. Many union members took part explosively in the unions' struggles, but the inexperienced leaders continued to be replaced by other leaders with union members' non-confidence resolutions, or by dismissal and arrest stemming from union struggles.

Second, in many large firms, collective bargaining was institutionalized and the IR was relatively stabilized after 1992. The struggles for the democratization of management-controlled unions resulted in success, and many collaborating leaders were replaced with independent leadership. As a result, collective bargaining started to be institutionalized and lawfully conducted labor disputes increased. About 4,000 labor unions, which amounted to half of all labor unions, had an election in 1990. In about 70% of the unions that had elections, the union leadership was replaced. Most of the new union leaders who were based upon the Shopfloor Activists Organizations such as Nominchu (the union democratization committee) promised democratic union governance, strong militancy, and participation into solidarity activities (Kim Jun, 2001). As the management recognized the democratic union leadership,

collective bargaining gradually made a certain pattern that was repeated every year and labor disputes were handled within the expected legal procedures. Unlawful labor disputes and private violence by the management largely decreased and the IR started to institutionalize, based upon collective bargaining.

At the same time, in many large firms, New Management Strategies (NMS) were spread to restore labor discipline against unions' workplace power. NMS represented a systematic effort to increase the flexibility of labor force utilization and to strengthen labor discipline by reestablishing the workplace domination regime that was collapsed by the explosive labor mobilization during 1987-89. NMS included factory automation and innovation of work organization, expanding of outsourcing, introducing of merit-based personnel policy and company culture campaign. (Chang, 1997; Kim Jun, 2001; Lim, 1997)

Factory automation was combined with innovation of work organization such as work process rationalization, job integration and job transfers. A number of Japanese production systems such as just-in-time, team organization, use of multi-skill workers, and Kaizen activities were combined with expanding of outsourcing and use of contingent workers for maximizing the flexibility of labor force utilization. The introduction of merit-based personnel policies meant a transition from a pay scale based on seniority to a wage scale based on job ability and performance, including differential bonuses based on performance and a promotion system based on job ability. These strategies were not only rationalization strategies for increasing the flexibility of labor force utilization and improving labor productivity, but also were a strong offensive mechanism for restoring the management's domination in the workplace and weakening the unions' workplace power.

The most important effect of the NMS was that the management could enforce labor discipline on workers and could weaken the unions' mobilization power in the workplace by strengthening the shopfloor supervisors' authority. The innovation of work organization that enlarged this authority was to maximize the supervisors' leadership around all of the issues of the production process. With the supervisor-led small-group activities, the work team was changed to a human relationship network that the shopfloor supervisor could manage. The man-

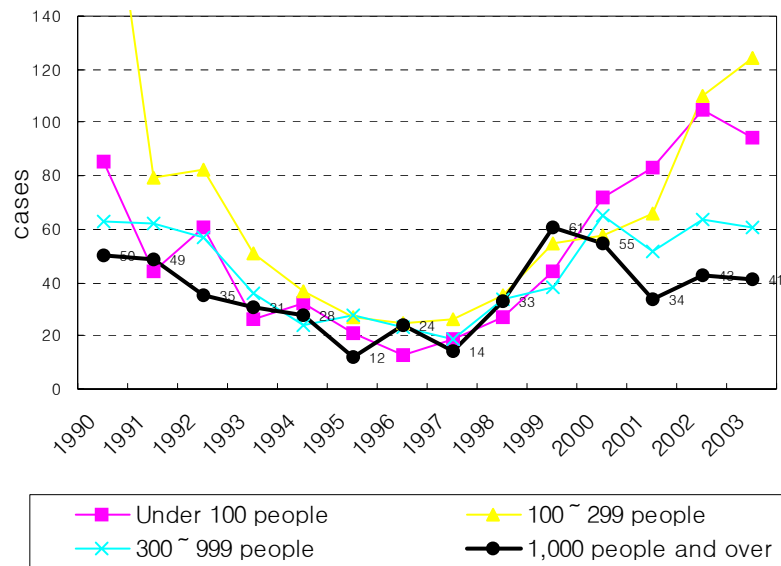
agement induced the shopfloor supervisors' competition for loyalty to the company by merit-based personnel management. In the shipbuilding industry, the NMS enabled the management to isolate union activists by establishing a workplace system centered on shopfloor supervisors, and the management succeeded in weakening the union leadership by intervening in union delegate elections. (Kang, 2003:177)

Also, the management in large firms tried to improve living conditions of workers and to change workers' consciousness by substantial wage increases and extension of company welfare. The decentralized wage determination at the enterprise level has brought about a competitive wage increase among large firms since 1987. The workers in large firms have achieved a substantial wage increase every year based on their strong organizational capacity (Park Dong, 2000: 224-5). The management in large firms has accepted a competitive wage increase to internalize the IR at enterprise level. However, they tried to combine high wages with a merit-based wage system and a flexibility of the labor market instead. The NMS were very successful. Evidences that show that the management's capacity for shopfloor control was restored, such as the spreading of no-strike declarations, and the increase of delegates who collaborated with management, started to appear. (Kim Jun, 2001).

Last, in many large firms, fierce labor disputes over employment issues after the disposal of insolvent enterprises and business restructuring have happened since 1998. According to Figure 3-2, labor disputes in large firms of 1,000 people and over continued to decrease in 1990-1995, after reaching the highest level in history during 1987-89. However, it increased again to the highest level in 1999, when the business restructuring of *Chaebols* became an important issue. Since the financial crisis to the present, the labor disputes in large firms continued to maintain the level of the first half of the 1990s. The disputes in large firms have increased more rapidly than total labor disputes since 1997. In particular, the large enterprise unions in the automobile industry have continued to maintain a militant strategy and created an adversary IR. Between 1997-2000, some massive labor resistance occurred in the process of the disposal of insolvent automobile companies such as Kia Motors, and Daewoo Motors, and fierce struggles against mass dismissal occurred in Hyundai Motors and Mando Engineering. Currently, while the

managements in automobile companies are trying to dispose of unprofitable businesses, enlarge overseas factories, and create innovation in production systems such as the introduction of platform integration and module production, labor unions are resisting these efforts and continue to struggle to get much greater distribution of excess profit (Kia Motors Union, 2003: 245).

FIGURE 3-2 THE CHANGES OF LABOR DISPUTES BY FIRM SIZE



Source: Korean Labor Institute, Labor Statistics. 1997, 2004

However, the characteristics of large-firm unionism as an interest group movement have been strengthened. As the employment of permanent workers in large firms has been becoming insecure, and labor market segregation has been strengthening since the financial crisis of 1997, large-firm unionism has tended to focus exclusively on wage and job security of union members, while largely being unconcerned about the solidarity with non-regular workers. Generally speaking, the development of large enterprise unionism from 1987 to the present has been a process of transition from a social movement to an interest group movement.

3.2 Diversification of industrial relations in large companies

As collective bargaining became institutionalized and NMS were introduced in many large firms, the large enterprise unions started to focus on the realization of economic interests of union members through collective bargaining in the 1990s. But the process of collective bargaining didn't go through smoothly and cooperatively; there were adversary characteristics accompanying a high conflict of interest. Before the financial crisis, many researchers pointed out that in many large firms, the stable IR with the elements of micro-corporatism was being reproduced and the possibility that the IR of South Korea would be developed into a Japanese-style micro-corporatism couldn't be ignored (Lee Johee, 1998; Lee Changhee, 1998).

However, the serious labor disputes in many large firms continued to happen every year and many large enterprise unions were still militant. At the same time, the diversity of the IR in enterprise and industry level increased. While large enterprise unions in the automobile industry tended to preserve militant strategy, in the shipbuilding industry, they tended to adopt a collaboration strategy. Why did large enterprise unions in the automobile industry still stick to a militant strategy in spite of high wages and welfare of the union members? At the same time, how can we explain the emergence of a micro-corporatism or cooperation strategy of some enterprise unions in shipbuilding or the electronics industry, contrary to the militant strategy of the automobile industry?

Some important variables in the development of large-firm IRs were not only the solvency of a company and an employer's personnel management policy, but also the tradition of workers' struggles and the strategies of the union.⁷ The large enterprise unions became different in experience and in the tradition of workers' struggles after 1987. Moreover, the ideological orientation of the union activists and the shopfloor organizational bases of the union were diverse. How many activists who were oriented towards democratic participation and working-class solidarity were organized in the workplace? What kind of ideology and stra-

7) According to Lash, the socialization by labor union is the most important factor for the industrial militancy and radicalism (Lash, Scott, 1984).

tegic goals did Shopfloor Activist Organizations have? These factors influenced the choice of the strategy of labor unions. In particular, the ideological orientation and strategic goals of the leadership decisively influenced the development of the IR in large firms. Whenever a turn-over of the union leadership was brought about by elections that were usually conducted every other year, the strategy and activities of the union were significantly changed.

The management's union policies were diverse, according to the orientation of owners of *Chaebol* groups. The management could pursue an exclusive strategy against the union, that is, take an intransigent attitude to union's demands, or take a union avoidance strategy. Also, the management could pursue an inclusive strategy that incorporate the enterprise union into a company community by recognizing it as a cooperative partner for dialogue and seek compromise between labor and management. The owner of Hyundai Group strongly resisted the union's intervention over the management prerogative. The managements of Daewoo Group and Kia Motors, which, relatively speaking, didn't have strong corporate governance, and the owner of the LG Group, which traditionally preserved a paternalistic strategy over the employees tended to utilize an inclusive strategy over the union. The owner of the Samsung Group and the management of Posco, which chose a Japanese-style HRM, obstinately adhered to a non-union strategy based on relatively high wages, expansion of company welfare, and hard-line HRM.

However, the most important factor that determined the strategies of IR actors was the shopfloor power of enterprise union, which was influenced by politics of production at the workplace level. The shopfloor power of enterprise union indicates the union's potential threat to production efficiency and the actual "power" depends on the union's organizational bases for rank-and-file mobilization at the workplace. Now that the most important power resource of the enterprise union in South Korea was labor mobilization at the workplace level, the substantial base for bargaining power of the union was the existence of active, devoted activists who linked the union leadership and members together. They collected the demands of the workers and tried to carry out the union policy. The shopfloor power of the union was increased by the

mobilization and participation of union members after 1987. However, the competition between the management and the union for acquiring the loyalty of the workers was strengthened after introducing the NMS. Workplace democracy in large firms was achieved through routine resistance and dynamic labor mobilization in the workplace after 1987. The Union's intervention and regulation over the labor process took a form of routine, informal bargaining and depended on the union's shopfloor power centering on the union delegates.

The union's shopfloor power was very diverse, according to the characteristics of the labor process, the tradition of workers' struggles, the efforts of union leadership and the effect of the NMS. While the management in the shipbuilding industry succeeded in establishing a competitive internal labor market in its enterprise by the NMS, the union's shopfloor power in the automobile industry was relatively strong, and the unions could preserve the uncompetitive internal labor market through regulations against the autonomy of the management.

In the automobile industry, a continuous production process increased the bargaining power of unions. The stress or grievances of the workers stemmed from conveyor-belt work and the activated workplace bargaining contributed to strengthening of the shopfloor power of the labor union. In workplace bargaining, union delegates pressured the management to accept their demands by threatening production efficiency and creating informal obstruction of smooth production. In addition, the prosperous condition of the automobile industry made it difficult for the management to take an intransigent attitude towards the workers' demands by increasing the cost of conflict (Cho Sungjae, 2003:86). Activated workplace bargaining and efficient resolution of workers' grievances through union delegates became the major resources for maintaining workers' loyalty to the union. In the shipbuilding industry, the shopfloor power of the union was hard hit by NMS. NMS reestablished the workplace regime centering on the shopfloor supervisor by strengthening group work and competition among work teams, individual work assignments within the work team, and merit rating by the shopfloor supervisor. The continuous watching of union activists and human relations management by the shopfloor supervisor had the effect of isolating the union activists in the workplace (Kang,

2003).

We can classify some types of union action and industrial relations in large firms on the basis of three variables: the shopfloor power of unions, a union's strategic orientation, and the management's union policy. Further, we can divide the shopfloor power of labor unions into two types: strong cases and weak cases. We can classify a union's strategic orientations into three types: a class-solidarity orientation that goes beyond the boundaries of enterprise, a redistribution orientation that seeks the maximum economic interest of union members, and a collaboration orientation that emphasizes a cooperative relationship with the employer. Last, we can divide the management's union policy into two types: an exclusive strategy that seeks to exclude a union's intervention in the prerogative of management to individualize the IR, and an inclusive strategy that pursues a cooperative relationship with the union by recognizing it as a partner. Also, in the case of union, the types of union action and the IR change dynamically with the change of union leadership, the shift of shopfloor power relations between union and management, and the change of the management's union policy.

According to these three variables, we can find 8 different types of union actions and industrial relations. If the management's union policy is inclusive, it will be possible to form a cooperative relationship, or at least, a reciprocal, productive bargaining relationship between the union and the management. But if the management's union policy is exclusive, the union's militant struggle or the collapse of bargaining relationship will occur according to the union's shopfloor power.

TABLE 3-2 THE TYPES OF UNION ACTION AND IR IN LARGE FIRMS

Union's Shop-floor Power		Strong		Weak	
Union's Strategic Orientation		Solidarity Orientation	Redistribution Orientation	Solidarity/Redistribution	Collaboration Orientation
Management's Union policy	Exclusive	Solidarity-oriented Militant Struggles	Redistribution-oriented Militant Struggles	Debilitation of Labor Union	Non-union Model
	Inclusive	Solidarity-oriented Industrial Bargaining	Strong Micro-Corporatism	Weak Micro-Corporatism	Collaboration With Management

First, if the management chooses the exclusive strategy against the union and the large enterprise union pursues class-solidarity with other workers on the basis of a strong mobilization capacity, the union action will develop into militant struggles toward the working-class solidarity. The large enterprise unions affiliated with Machang-noryon (The Federation of Machang Region Trade Unions) developed militant struggles against the repression of the state and employers through the regional solidarity and sought national working-class solidarity by participating in the KTUC in 1990. There were many cases of militant struggles toward solidarity such as the struggles of Hyundai Heavy Industry (HHI) Union during 1989-90, the national workers' solidarity with the struggle of Hyundai Motors workers for job security in 1998, the struggle of the Seoul Subway Union in concert with the general strike strategy of the KCTU in 1999, the social solidarity with the struggle of the Power-Generation Industry Union against privatization of the corporation in 2000. In these cases, the management's exclusive strategy gave rise to militant mobilization of the workers and the strong solidarity strategy of union leadership changed the workers' struggle into national working-class solidarity movement. The solidarity-oriented militant struggles mainly appeared in 1987-90 when the political labor movement strongly influenced the labor unions and the IR wasn't yet institutionalized. Also, they appeared immediately after the financial crisis of 1997 when the conflicts vis-à-vis the mass dismissal exploded in the process of business restructuring. However, the solidarity-oriented militant struggles tended to change into other types of union action after the institutionalization of the IR at the enterprise level, or at the end of business restructuring in large firms.

Second, if the management's control over the workers in the workplace is restored, the enterprise unions will be debilitated, even though they are oriented toward working-class solidarity or political mass mobilization. The union members are skeptical of working-class solidarity and excessive militancy, which have nothing to do with their interests. And the management can debilitate the solidarity-oriented union leadership through the union delegates who are controlled by the management. In many large enterprise unions after the fierce strikes were defeated in the 90s, the militant leadership was debilitated or replaced by pragmatic

cooperative leadership. In the case of the 63-day strike of the Hyundai Heavy Industry (HHI) Union protesting the government intervention into the railway workers' strike in 1994, the arrest of the union leadership, the discontent of union members about the strike, the shopfloor supervisors' collective secession from the union and formation as an independent organizational force all contributed to the collapse of the organizational base of the union. After the defeat of the strike, the HHI management was able to control union delegates by electoral intervention. The HHI union was debilitated because of the conflict between union executives and a board of delegates, and finally, the weakened militant leadership was replaced a more pragmatic cooperative leadership in 2002 (Roh Byungjik, 2003). Also, cases such as the debilitation of the militant leadership of Daewoo Shipbuilding Union in 1999-2001, the collapse of Daewoo Motors Union in 2000, the debilitation of the Dusan Heavy Industry Union in 2002, and the debilitation of the LG Oil Refining Union after the strike in 2004, were the result of the union members' negative attitude towards the militant strike, the arrest of union leadership and the massive oppression of the union by the employer.

Third, the redistribution-oriented militant struggle is a case in which the orientation of the union is changed from working-class solidarity to a redistribution of excess profits for union members. It occurs when the management's exclusive strategy and strong shopfloor power of the union are unchanged in spite of the institutionalization of the IR. The mistrust and hostility between the management and union continue and the result of distribution of excess profits in collective bargaining is determined according to the power relations between the union and the management. The management's suppression of workers' demands and exclusive union policies strengthen the position of militant leadership in union politics and make a tradition of mass mobilization among union members. The redistribution-oriented militant struggle is the mobilization for pragmatic, economic interests of union members only. The union members demand that the union leadership achieve much greater economic performance in collective bargaining and judge the union leadership in the next union election based upon the result of collective bargaining.

This pattern could generally be found in large enterprise unions of

the automobile industry, including the Hyundai Motors Union in 1995 after it experienced both leadership; one that was oriented towards militant working-class solidarity, and the other towards union-management cooperation. The union action and the IR in large firms were changed to various types of other actions such as the working-class solidarity oriented militant struggle, the redistribution-oriented militant struggle, strong or weak micro-corporatism, and the debilitation of labor unions.

Fourth, Micro-corporatism has emerged in some large firms since the mid-1990s. Micro-corporatism can be defined as a cooperative partnership between management and union based upon the union's independence from the management, unlike the one-sided cooperation of the union under the control of the management. It emerges fundamentally from the management's inclusive union policy, but its forms vary according to the strategic orientation of union leadership and the degree of shopfloor power of the union. If the shop-floor power of the union is strong and the labor union is oriented to the redistribution of excess profits, a strong micro-corporatism, that is, a union-initiated partnership such as the management participation tends to emerge. This type included cases like Kia Motors, which had a non-owner professional management system until the financial crisis in 1997, public enterprises, and Doosan Heavy Industry before privatization. The professional management of Kia Motors before 1997 pursued a partnership with the union, using employee stock ownership and a joint board of management. According to Cho Sungje, Kia Motors preserved a cooperative IR, that is, collaborative relationship between the management and union without any outsider's watch and check (Cho Sungje, 2003).

If the shopfloor power of a union is weak, micro-corporatism will be weak and unstable, even though the management pursues an inclusive union policy. In Korea, the managements tended to pursue a concession and compromise for mobilizing the cooperation of the union, when they faced a serious difficulty in management. In the crisis of the company, labor unions also tended to cooperate with the management because company survival was a precondition for the job security of union members. The Daewoo Shipbuilding Union during the 1990s and the GM-Daewoo Motors Union after 2000 were the representative examples for this type. The management of Daewoo Shipbuilding took a

cooperative attitude towards the union, and the union also pursued management participation strategy based upon the stable leadership. Though the shop-floor power of the union rapidly weakened, the Dae-woo Shipbuilding Union chose the strategy of management participation, consultation practices, and alternative policy development based upon a stable bargaining structure (Roh Byungjik, 2003; Kang Sukje, 2003).

If the shopfloor struggles are activated because of the prosperous condition of the company, the weak form of micro-corporatism will be replaced by the redistribution-oriented militant struggle. If the new union leadership that has a cooperative orientation emerged according to the result of the union election, weak micro-corporatism can be changed into the union's subordinate collaboration with management, or the debilitation of labor union. Also, the management's acceptance of micro-corporatism tends to depend on business conditions.

Fifth, the typical collaborative unionism emphasizes the joint interests of capital and labor and pursues union's one-sided cooperation with management. Collaborative unionism means management-initiated cooperation based upon a close relationship between union and management, a bureaucratic domination of union leadership and a pragmatic attitude of union members. In Particular, the bureaucratic domination of cooperative union leaders tends to depend on the management's support and an elaborate shopfloor control of the management. The Hyundai Motors Union in 1993-95, HHI Union after 2000, and the LG Electronics Union can be classified into this type of collaborative unionism.

Last, the two extreme types of large-firm IRs are the non-union model and the working-class solidarity-oriented industrial bargaining model. The non-union model means joint labor-management consultation and collective bargaining by employee organization without the legal right of collective action. The case of employee organization in Samsung Heavy Industry is a representative of a non-union model in large firms. The non-union IR in Samsung Heavy Industry has been preserved by the employer's strong resistance against the right of organization of workers, and the employees' pragmatic attitude that chose to accept the high economic compensation at the expense of the right of organization of workers.

The solidarity-oriented industrial bargaining model is a result of a

conscious effort of union leadership that is oriented towards working-class solidarity, strong shopfloor power of large enterprise unions that can overcome the opposition of the management against industrial bargaining, and a strong desire of small-medium firm workers who can't protect their interests from the employers with enterprise union system. However, this is an unusual type of large-firm IR, because most large enterprise unions have failed in changing the organizational form from an enterprise union to a branch of an industrial union and many large firm branches of industrial unions have faced the employers' refusal of industrial bargaining. Nevertheless, many enterprise unions in the automobile-parts industry and the engineering industry changed to becoming a branch of the National Metal Workers Union, and many automobile-parts companies accepted the collective agreement with the National Metal Workers Union (Lim, Sanghun, 2004). It was because many automobile-parts subcontractors were weak in the face of the union's threat of production interruption and were overwhelmed by the strong bargaining power of the industrial union. The National Metal Workers Union tended to focus on the public agendas such as the minimum wage in industry and 40 working hours in a week, and it succeeded in achieving some solidarity-oriented institutional goals.

On the whole, in the process of change in the large-firm IRs, the differences of the IR patterns among the *Chaebol* groups such as Hyundai, Daewoo, and Kia have been weakened, but the differences in the labor process and business conditions among the industries such as the automobile, engineering, shipbuilding industries, have become more important in the degree of shopfloor power of unions, which was the most important variable in the changes in large-firm IRs.

3.3 The Crisis of the Union Movement in Large Firms

The experience of business restructuring after the financial crisis of 1997 changed the union's agenda to labor market flexibility and job security. However, this new agenda was beyond the capacity of enterprise unions that had focused on the improvement of working conditions by militant mobilization in workplace. The militant economism of large

enterprise unions was faced with many difficulties after the financial crisis of 1997.

First, large enterprise unions were faced with the difficulty of protecting the core interest of union members, that is, job security. The large enterprise unions failed to achieve job security for the permanent workers, as we could confirm in the cases such as the workers' struggles at Hyundai Motors in 1998, the general strikes of banking workers in 1999, and the struggle of Daewoo Motors workers in 2000. In spite of the efforts of labor unions to get job security, many workers thought that job security depended on business conditions and that participation in union activities didn't guarantee their job security. In many large firms, union members were getting a feeling of defeat and powerlessness and workers' attitude toward unions became passive. As many union members lost the conviction that their core interest could be protected through the struggle of union, they tended to devote themselves to individual adaptive action instead of collective struggle in the face of changing labor environment.

Second, the large-firm union movement was faced with a crisis of working-class solidarity. After 1987, the struggles for wage increases by large enterprise unions gave rise to the improvement of the workers' living conditions in large firms and resulted in better income redistribution between labor and capital in society because, for a while, the performance of the workers' struggles in large firms spread over to the small-and-medium firm workers. However, the wage segregation effect of large enterprise unions' struggles for wage increases gradually overwhelmed the spreading effect of wage hikes. The disparity of working conditions by firm size rapidly increased and the number of non-regular workers also rapidly increased, as can be seen in Table 3-1. These differences of working conditions had already made serious cleavages within the working-class. Many permanent workers tended to regard the employment of non-regular workers as a buffer for their job insecurity, and most non-regular workers complain that large enterprise unions were unconcerned about improving their working conditions. The strengthening of labor market segregation and the large enterprise unions' acquiescence to management's using non-regular workers has brought about their social, ideological isolation.

Third, the power resources of large enterprise unions were weakened. Many large enterprise unions experienced the weakening of their shop-floor power and were faced with a difficulty in mobilizing the workers into a national-wide struggle. Also, the union members' participation in union activities was decreasing, as was the number of union activists. While the role of the labor union as an agent of collective bargaining and the institutional power of union delegates increased, the participation and mobilization of the rank-and-file weakened. The union members' passive, pragmatic attitude towards union activities forced the union leadership to pursue a vending-machine style union activity that emphasized only the performance of collective bargaining. In addition, the union activities tended to result in only the activities of union leadership, without the participation of the rank-and-file.

Last, union democracy was confronting a crisis and the workers' trust in union leadership was decreasing. The union activists participated in union politics through the Shop-floor Activists Organizations (SAO) and played an important role as union delegates in workplace bargaining. However, the strong bargaining power of large enterprise unions tended to convert the union into a power group within the enterprise. The competition of the SAOs for union power and their ideological moderation tended to change them into factions for union power. Because of the division and conflict between the SAOs, the organizational capacities of labor unions were damaged. At the same time, the informal exercise of power of union delegates in the workplace and the conciliation and the privilege of management over them have aroused doubt among the rank-and-file as to the delegates' authenticity in union activities.

The crisis of large enterprise unions fundamentally stemmed from the characteristics of the IR system such as the consolidation of enterprise unions and the decentralization of collective bargaining. The consolidation of enterprise unions meant the tendency for union leadership and delegates to act within the limits of the formal IR system at the enterprise level. With the institutionalization of union activities, the dynamics of union activities and union participation of the rank-and-file was decreasing, but the institutional power of labor union as a formal institution within the enterprise was increasing. The union action was restricted to achievable objects. With the institutionalization of union

activities in the mid-1990s, some phenomena began to emerge: union activities centering on union leadership without participation of the rank-and-file, struggles being tolerated by the management within a predictable range, and restrictive use of mass mobilization as a means of pressure for collective bargaining. In this aspect, the crisis of large enterprise unions was a necessary result of the consolidation of the enterprise union system and the failure of the institutionalization of working-class solidarity at a socio-political level. The union members were attached to short-term economic interests as time went on and wouldn't pay the costs of participation beyond the benefit of union activities. The union activists in large firms were confined to the institutional limits that made them not to be able to pursue strategic action for long-term objects.

4. Union Politics and Strategies of Labor Unions

4.1 Union leadership and electoral politics

In enterprise unions, the values and intentions of a union president have greatly influenced the agenda formation and the strategy determination of the unions. The union leadership takes charge of determining a line of union action and mobilizing the resources of the union effectively. In addition, the degree of union members' participation in union activities has also been largely influenced by the will of the leadership. At the same time, the characteristics of union leadership are influenced by also internal politics of the union. In the process of determining bargaining agendas and strategies of a union, unions experience many conflicts and compromises among the actors who have a different ideology and policy line. According to the results of competition among the Shopfloor Activists Organizations (SAOs) in electoral politics, a different union leadership has emerged. With the institutionalization of union activities, a gap has increased between the union leadership, who acts as an agent of collective bargaining, and the shop-floor activists, who are free from the result of collective bargaining and usually pursue radical

politics of social movement. Also, the conflict and cooperation between the union leadership and union delegates, and the competition between collaborative line of unionism and radical militant unionism have increased.

According to Kim Dongchun, the leadership of enterprise unionism after 1987 was divided to the solidarity-oriented leaders who tried to strengthen the organizational capacities of union and working-class solidarity, and the pragmatic leaders who tried to restrict union activities to the pursuit of the economic interests of union members (Kim Dongchun, 1995:293-299). Also, according to Lim Youngil, large-firm union members in mid-1990s chose the militant leadership and the collaborative leadership by turns on the basis of the ability of acquiring more economic concessions from employers. In many cases, such switch of allegiance resulted in the militant executive and the collaborative delegates holding each other in check, because they knew well that while the high bargaining power of the militant executive would facilitate workplace democracy, a combination of militant executive and militant delegates would necessitate serious conflicts with the employer (Lim Youngil, 1997: 123-5, 234-5).

Neither the strategies of working-class solidarity nor unrequited collaboration with the management have become a dominant strategy of many large enterprise unions, in which union democracy has restricted the autonomy of union leadership. Union democracy has been a driving force of militant strategy when the employer has chosen an exclusive union policy. The union leadership, which was subject to re-election every other year, had to focus on collective agreement, and could not help but choose a militant strategy, which had been proven as the most effective means to achieve economic interests. While the union leadership tends to choose a militant strategy in the unions where union democracy is activated, the union leadership tends to choose the strategy of cooperative partnership with the management in the unions where union democracy is weak. In the end, the space for autonomous activities of the union leadership has been very small in the face of the exclusive union policy of the employer and the union members' tendency to maximize their short-term interests.

However, the militant strategy of large enterprise unions reflects not only the demands of the rank-and-file for maximizing their short-term interests, but also the political orientation of union activists. After 1987, there emerged many activists who strongly refused a cooperative relationship with the employer and desired structural changes in the Korean society. They had a close relationship with the rank-and-file in the workplace and affiliated themselves with the SAOs that had a strong orientation towards working-class solidarity and transition from the enterprise union system to an industrial union system. Although union officials had high job autonomy, they didn't have a high status compared to the rank-and-file. They were characterized by high commitment and low reward for their activities such as low incomes, unstable careers, and the sacrifice of family life.

According to a survey in 2003 on metal workers' awareness, about 49.3% of the union members regarded the improvement of working conditions of union members, including wage hikes, as the most important object of union activities. However, 32.1% of union officials chose the working-class solidarity and political formation of the working-class. 35.7% of union officials chose the reform of law and institutions for improving social status of all workers. Especially notable, 46.7% of the presidents of enterprise unions regarded working-class solidarity and the political formation of the working-class as the most important object of the labor union (Cho, Hyorae, 2003). This survey showed that the union leadership was more interested in the solidarity of the working class and social reform than collective bargaining for the economic interests of the union members.

Therefore, union officials have experienced strong tension between their own orientation towards union activities and the rank-and-file's economic demands since mid-1990s. To the union leadership who has oriented towards working-class solidarity, union activities and labor disputes themselves have been thought of as opportunities to strengthen the class-consciousness of the members. The gap between the relative radicalism of union officials and the pragmatic orientation of the rank-and-file has usually appeared as tension between union executives and delegates, or as competition between militant factions and collaborative factions within the union.

The gap between the solidarity orientation of union officials and the pragmatic demands of members, the competition between the solidarity-oriented leaders and the pragmatic cooperative leaders, and the divisions among the different ideological factions within the solidarity-oriented activists have produced a dynamic union democracy. Immediately after 1987, the union leadership was very unstable due to repression by the state and the employer, and the non-confidence of the rank-and file. Since that time, however, the status of union leaders has become stable and is institutionalized through the regular electoral competition among some factional leaders. Electoral politics have been activated because of the division and power competition of SAOs in large enterprise unions. Union activists have concentrated their energies on elections of union presidents every other year. Union democracy has gradually changed from an activated direct democracy based on the rank-and-file's participation to a representative democracy based on the competition of SAOs for electoral victory.

The pattern of union elections in many large enterprise unions is usually a competition between collaborative factions emphasizing pragmatic interests of union-members and militant factions emphasizing intense struggles against the employer. But, if the union has relatively strong shopfloor power, as does the Hyundai Motors Union, the election plays out as a factional competition among the leaders of SAOs oriented towards working-class solidarity. Activated democracy produces a competition of candidates pledging much more performance by means of more militant struggles. To the union leadership who wants to convince the members that he can obtain more concessions from the management, the most efficient way to get much more economic gains in the short-term is to threaten the employer through collective action. Therefore, in the automobile industry, where the union's shopfloor power is strong, the union election means competition among the candidates who promise stronger struggles to get more concessions from the management. Thus, the faction that emphasizes labor-management cooperation can't win the election on the condition that excessive militancy doesn't threaten the stability of the union organization.

Union politics and elections in large enterprise unions are based on the competition of SAOs. Between 1987 and 90, Most SAOs in large

firms stemmed from the activists' groups that prepared to organize labor unions, or that tried to democratize the management-controlled union, or that actively participated in mass mobilization. Immediately after 1987 the union activists generally shared the ideas of Nodong-Haebang (labor liberation), Pyongdeung-Sesang (social equality) and the necessity of militant struggles against the employer and the state. However, they have continuously divided into many different factions since the mid-1990s because of their ideologies, the union's strategic lines and the conflict over the process of union elections after the institutionalization of the IR in large firms. Sometimes, the gap between the union executive who is harassed by the limits of institutional space and the lack of ability in policy making and the shopfloor activists who emphasize the principles of labor movement, has contributed to the division of SAOs again.

The SAOs have not only competed in union elections but also have acted as a critical and alternative force for union executives in the process of union's decision-making. They influence union's decision-making in two ways. The first is to appeal directly to union members by expressing direct criticisms, or by offering alternatives to the union policy through a regularly issued newspaper. The second is to influence the decision-making of labor unions through delegates who are affiliated with SAOs. In the board of delegates, the SAOs can restrain or reject a plan of union executives through the delegates in the process of taking a vote on the issues. If the opposition of delegates is strong, the union executive won't conduct normal union activities or will be debilitated in the process of negotiation with the management.

Therefore, many union members have pointed out that the excessive division of the SAOs and the emotional conflicts among the union activists are critical hindrances to the strengthening of union activities. The criticism that the excessive division of the SAOs has obstructed united action of the union has increased. Though the SAOs don't have any political differences, the factional strife among the ex-presidents and the incumbent president of the union has aggravated a division and conflict among the SAOs. For example, in the case of the Hyundai Motors Union, 41% of the union members who replied to the question of a survey (Hyundai Motors Union Policy Forum, 2004.8) about the most important factor obstructing the development of unions chose the ex-

cessive division and struggle for hegemony among the SAOs

Actually, the relationship among union executives, the board of delegates, and SAOs is similar to the relationship among the Administration, the National Assembly and the political parties in state politics. The delegates are a base of the shopfloor control power of unions and a mechanism for the union leadership to communicate with the rank-and-file. But, at the same time, they can play a role in criticizing and keeping the union executives in check. Because the delegates are potentially an organizational base of opposition for the union leadership and are elected with their own term of office, the management's efforts to keep the union in check are concentrated on winning the delegates over to its side. The union delegates not only conduct the workplace bargaining over the resolution of union members' grievances that happen in factories, but also collect the rank-and-file's opinions and demands for the union executives and put the union policies into action in the workplace. The union delegates and the shopfloor supervisors are in a competition to acquire the loyalty of workers who are both union members and employees. The union delegate can negotiate directly with a plant manager debilitating the shop-floor supervisor, or the latter can isolate the former in the workplace and subordinate delegates under his control.

The union delegates can be divided into categories as follows: delegates under the control of union leadership; delegates under the control of parties in opposition to the union leadership; independent delegates; and delegates under the influence of the management. However, their distribution varies according to the degree of shopfloor power of the union leadership. The keeping in check of the union executive is conducted by cooperative delegates who are under the influence of the management as well as the militant delegates, because many delegates have defined themselves as opponents to the incumbent leadership.

In the end, union politics in large firms is going on under the influence of exclusive union policies of the management and is directly shaped by the demands of union members. The union leadership in large firms should fulfill the short-term economic demands of union members for winning union elections. The best way to fulfill the pragmatic economic demands of workers is to threaten the employer with militant action. Thus, the union election becomes a place for a militancy

contest of the SAOs. A limited militancy that won't debilitate the organizational capacity of labor union by incurring strong repression of the state and the employer is an easy, attractive choice for the union leadership. The militant strategy won't be discarded as far as the organizational strength of labor unions because a limited shop-floor strike remains

4.2 Consciousness of the large-firm workers and their attitude toward the union

The IR in large firms has been influenced by the changes in the union members' consciousness and their attitude towards the union. The changing consciousness and demands of union members have definitely influenced the choice of the goal and strategies of unions. The union leadership who takes union elections into consideration can't be free from the demands and the pressure from union members. The change of the union leadership is the result of a choice of union members who support a candidate of the SAO who is regarded as being the most effective person to deliver their demands at a certain moment. The union leadership is pressured to choose a strategy to achieve the short-term economic interests of union members instead of pursuing the long-term goals of all workers, because of the burden of the next union election and strong demands for the economic interests of union members. Union members judge the power competition of the SAOs within the union from a viewpoint of a choice of the most efficient means for realizing their economic interests.

An important point is the fact that the significance of labor unions to large-firm workers has gradually changed since 1987. According to Kim Dongchun, immediately after 1987, the workers in large firms regarded the labor union as an organization that could realize the dignity of workers as citizens because of the seriousness of continuing inhuman treatment in workplace. The large-firm workers had a strong solidarity-oriented attitude towards the labor union in the process of organizing the workers against repression by the state and the employer (Kim, Dongchun, 1993:111-120). However, with the institutionalization of the large-firm IRs, rapid wage hikes and expansion of company welfare, the

consciousness of the workers in large firms largely changed. The wage of blue-collar workers in large firms reached that of white-collar workers and labor market segregation among the blue-collar workers strengthened. During the 1990s, with the expansion of durable consumer goods like cars, and workers' own housing, the middle class lifestyle and consuming norm were generalized among workers. The job mobility of blue-collar workers almost disappeared and a strong internal labor market was established in many large firms. The struggles for wage increases during collective bargaining proceeded in predictable ways and the necessity of participation and mobilization of rank-and-files decreased. To large-firm workers, the meaning of labor union gradually changed from the organization trying to achieve the workers' rights and working-class solidarity for social justice into an instrumental organization conducting collective bargaining for much higher wages of union members.

In addition to the institutionalization of collective bargaining at the enterprise level and rapid wage increases in large firms, the pressure of increasing living costs for blue-collar workers and the uncertainty of job security after the financial crisis of 1997 changed the workers' attitudes towards labor unions.

Regarding the demographics of workers, immediately after 1987, most blue-collar workers in large firms were unmarried and ranged in age from the late twenties to the early thirties. In contrast, in 2002, most workers were married and they were in their late thirties, with two children. In 2002, the average age of union members in large firms over 5,000 workers was 35.1 years and the average number of people per household was 3.66 people. The larger the size of the firm the higher the average age was and the longer the average term of employment of the workers was (KCTU, 2003). Of course, the effect of aging of workers was different. According to the FMITU's survey (Table 3-3) about the conditions of blue-collar workers in large firms over 500 people, the average age of union members in engineering and shipbuilding industry was 40.66 years and 38.66 years respectively, but the average age of workers in the automobile industry was 33.14 years. Though 63.5% of the union members in the automobile industry were in their thirties, 48.5% of those in the shipbuilding industry were in their forties and over.

TABLE 3-3 THE DISTRIBUTION OF AGES AND THE AVERAGE EMPLOYMENT TERM OF WORKERS IN METAL INDUSTRY (% AGE, YEAR; 2002. 11.)

	Engineering	Automobile	Automobile Parts	Shipbuilding	Steel etc	Total
Under 25 years	1.4	6.3	3.3	1.1	-	4.1
25-29 years	4.3	16.6	4.4	14.7	-	12.2
30-39 years	41.4	63.5	72.5	35.8	50.0	56.9
40-49 years	42.9	13.3	19.8	41.1	25.0	23.4
50-59 years	10.0	0.4	-	7.4	25.0	3.5
Average age	40.66	33.14	34.98	38.66	37.00	35.63
Average employment term	17.1	8.6	11.6	14.4	14.1	11.4

Source: FMITU, 2003a: 54, 2003b

The older the workers become, the higher the living costs of the workers get. The blue-collar workers in their forties and over in large firms need much more income for housing expenses, for the education of their children, and for contributions to the pension scheme because of the weak social welfare system of South Korea. 51.1% of blue-collar workers in large firms exclusively depend upon single householder's income for housekeeping (FMITU, 2003:51). Because of the pressure of supporting their families, the workers need much more income and try to maximize their income by doing overtime work when the share of basic wages is very low (Kim, Jachun, 2003:120, 140). The demand for overtime work is a factor that strengthens the tendency to collaborate with the management, because the competitiveness of companies makes it possible to work many more hours. At the same time, the worker supports the enterprise union in militant strategies for much more profit-sharing through collective bargaining when firms made a high profit.

Also, the fact that most blue-collar workers in large firms exclusively depend upon the head of household's income for housekeeping has presupposed a strong responsibility for their families and continuous employment relations in large firms. The strong responsibility for the household and the fear of unemployment in a flexible labor market meant that the cost of participation of old workers in union activities would be very high (Hong, Wonpyo, 2001). The workers support labor unions as an efficient means for the distribution of excess profit of large firms and a final guard against market violence, but they show efforts to

minimize the disadvantages of participation in union activities. Thus, they usually support militant candidates in union elections. However, they would like to avoid participating in union activities or becoming union activists. The degree of worker mobilization and militancy usually depends upon the cost of participation in union activities and the shop-floor power of the union.

Also, the experience of business restructuring after the financial crisis of 1997 largely influenced workers' consciousness and their attitude toward labor unions. The most important effect of business restructuring was that the workers' trust in the ability of labor unions to protect union members from mass dismissal was damaged. No one could be sure of job security. The constant possibility of massive dismissals of workers and uncertainty about their futures largely influenced workers' consciousness and action. The shock of massive dismissal, proliferation of discourse on labor market flexibility and routine business restructuring showed that the permanent workers in large firms were also exposed to the volatility in market.

The uncertainty of job security has given rise to the workers' effort to maximize the short-term income against the shock of the market with overtime work and strong wage increase struggles, because they don't believe in the ability of labor unions for effectively controlling labor market any longer. Now that the workers in long-term service in large firms that have a pay scale based on seniority are a target of dismissal in business restructuring, old workers are in constant fear of the fact that they will be the targets of next dismissal if business conditions get worse. Thus, they try to maximize their income while being employed and tend to evaluate the union's performance according to its ability to obtain more economic concession from the employer (Kia Motors union, 2003; 254). The union leadership tends to strengthen a pragmatic attitude towards the employer in collective bargaining because of the union members' instrumental attitude towards the labor union and the pressure of getting short-term economic performance for the next union election. At the same time, the insecurity of employment strengthens a tendency to identify business success and workers' interest and acquire the economic rewards by collaborating with the management. Many workers think that it would be advantageous to pursue the common in-

terests between the workers and the management in the long run instead of unconditional opposition to the management, because the labor union's most important aim is to secure the right to work through job security (Kia Motors Union, 2003; 222).

In this sense, the pragmatism of large-firm workers in South Korea doesn't reflect the individualism of affluent workers as in western countries. On the contrary, pragmatism for Korean workers is an expression of individualized adaptive action to the failure of acquiring job security through collective action, the failure of union's regulation on labor market and the existence of penalties for participation in collective action. The effort of large-firm workers to maximize their income through overtime work and wage increase struggles is a rational response of individual workers to the volatility of market. However, the rational response of individual workers has resulted in the high social costs that include the continuation of antagonistic IRs in many large firms, the deepening of labor market segregation by firm size, the rapid increase of and discrimination against non-regular workers, and the indifference of permanent workers toward working-class solidarity through transitions to industrial unions.

Many workers in large firms are dissatisfied with the fact that their relatively high wage is very small in comparison with the excess profits of monopoly capital. At the same time, they agree to the argument that it is necessary to collaborate with management for business success in order to secure their jobs as permanent workers of a large firm in fierce market competition and labor market segregation. In this sense, both militant struggles for wage hikes and cooperation with the management are one of two choices that large enterprise unions can make. As a rule, if the bargaining power and the shopfloor organizational base of the union are strong, the militant struggle will be more efficient. If the shopfloor organizational base of the union is weak, the collaboration strategy will be an easier choice for the union leader. The workers in large firms tend to support a militant union leadership in order to gain greater wage increases during economic expansion and to obtain job security during recession. However, they have showed a passive attitude in terms of participation in union activities. The instrumental attitude of large-firm workers towards labor unions is a cause of militant economism in many

large enterprise unions as far as the shopfloor organizational base of the union goes. However, if the shopfloor organizational base of the union doesn't back it up, the instrumental attitude of the workers towards labor unions will become a base for micro-corporatism that maximizes their interests through collaboration with the management at the sacrifice of non-regular workers.

Many large-firm workers have doubts about improving workers' status in society through working-class solidarity in the neo-liberal era and tend to regard the solidarity with non-regular workers or medium-small size firm workers through industrial unions as downward equalizations of income. Thus, the large-firm workers tend to choose social isolation instead of solidarity with other workers. Also, they tend to choose limited militancy against the employer instead of collaboration with the management. Though they struggle to get much greater compensation from an employer who gets an excess profit, they put some restrictions on their struggle in order that it doesn't threaten the success of the businesses and their jobs.

Evidence of the changing attitude of large-firm workers towards labor unions is that the rank-and-file's participation in union activities is weakening and its nature is changing. Though the rank-and-file's participation in union activities is still high, it is changing into a selective and passive participation. The nature of their participation in union activities is changing from a kind of activities for workers' communities or participation based upon ideological commitment, to the instrumental participation as pressure for means of wage increases. According to a survey (Cho Hyorae, 2003), 50.7% of the union members in FMIU pointed out a lack of members' participation in union activities as the most important problem for union revitalization. However, 44% of the union members responded that they were actively participating in union activities. The results from this survey show that the power resource of large enterprise unions is exclusively confined to labor mobilization on the shopfloor and the consolidation of shopfloor. The organizational base of labor unions needs not only passive and instrumental participation in union activities, but also devoted participation of the rank-and-file.

6. Conclusion

It is inevitable that the large enterprise union has regressed from a social movement to an interest group movement in the process of consolidation of the enterprise union system under the 1987 Labor Regime. The agenda of enterprise unions cannot be free from the particular short-term interests of the large-firm workers in a consolidated structure of enterprise unions. The social isolation of large enterprise unions and the regression to an interest group movement will continue as long as the organizational structure of enterprise unions is not reformed to enlarge the agenda of unions and the coverage of collective agreement. However, in transition to a Neo-liberal Labor Regime after 1997, large enterprise unions are faced with circumstances under which they cannot discard the militant strategies that are associated with the solidarity-oriented leadership.

In the consolidation of the enterprise union system and labor-exclusive strategies of the employers in large firms, the instrumental attitude of workers towards labor unions was an important factor in producing the Militant Economism of large enterprise unions. The union members in large firms tend to regard labor unions as an instrument to achieve economic demands of the workers through collective pressure on employers. The institutionalized union democracy hinders both the solidarity strategy with other workers and the cooperation strategy with employers by restricting the autonomy of the union leadership. Also, it has been a continuous driving force behind the militant strategy of the union under the labor-exclusive strategy of employers. Many enterprise unions haven't made a departure from militant strategies because they have been the most efficient means to achieve the economic demands of union members, regardless of the change in union leadership. The union leadership who are conscious of union elections in many large firms has chosen militant strategies in order to get more leverage in collective bargaining.

However, the large enterprise unions face some difficulties or dilemmas in terms of the vision for the future of labor movement.

The first dilemma is a choice between militancy and moderation strategies. In many large firms since 1997, the shopfloor organizational

base of labor unions, which was the driving force of mass mobilization, has weakened in routinized business restructuring. Though instrumental collectivism of union members is usually accompanied by militant union action, the organizational base of the militancy has weakened and a tendency to collaborate with the management has become strong. Actually, the workers' militancy became strong during the periods of economic expansion and the concessive bargaining increased during depressions. Under the Neo-liberal Labor Regime, when job security depends upon business competitiveness and a business cycle, the workers' efforts towards job security need collaboration with the management for business competitiveness. Also, the demand for extra income through overtime work needs to be based on enough work to do. The workers do not prefer one-sided cooperation with the management when loyalty to the management has weakened because of routinized job insecurity. At the same time, they do not support unnecessary conflict with the management and the militancy that has nothing to do with their economic interests, as long as the management does not pursue one-sided structural restructuring. Therefore, militant strategies and collaborate strategies have become replaceable choices, according to the extent of the shop-floor power of labor unions, business cycles and business competitiveness.

The second dilemma has to do with the choice of large enterprise unions regarding the transition to an industrial union system. In the metal industry, the transition from an enterprise union to an industrial union has proceeded very slowly and the dual structure of the National Metal Workers Union and some large enterprise unions has continued. The existence of enterprise union in large firms contributes to consolidation of the fragmented, decentralized IR system and makes it difficult to strengthen working-class solidarity through organizational centralization. The issues of structural restructuring need a joint response of the workers beyond the enterprise level, and the issue of labor market segregation by firm size and employment form no longer is resolved at the enterprise level. The consolidation of the enterprise union system does harm to the social legitimacy of labor unions as an organization pursuing social justice and working-class solidarity and accelerates social isolation of large enterprise unions.

The third dilemma is the response of large enterprise unions to the issue of non-regular workers. It is a choice between working-class solidarity and social isolation that represents exclusively the interests of large-firm permanent workers. As the number of non-regular workers rapidly increases, the role of large enterprise unions is decreasing. As labor market segregation and discrimination against non-regular workers become serious social problems, the ideological attacks on the large-firm workers are being strengthened. Critics of union movements argue that the number of non-regular workers is increasing and they suffer from low wages because of the militancy and high wages of permanent workers in large firms. Many large enterprise unions do not even give the opportunity to join the union to non-regular workers and most non-regular workers experience serious discrimination from the permanent workers on the shopfloor. The weak solidarity of large enterprise unions with the struggles of non-regular workers only amplifies the criticism brought against the large enterprise unions. In 2004, the response of the Hyundai Heavy Industry Union to a non-regular worker's suicide resulted in its expulsion from the FMITU. Also, in 2005, some bribery cases of union officials for the hiring of non-regular workers in some large firms struck a fatal blow to the morals of large enterprise unions and deepened the social isolation of the labor union movement.

The large enterprise unions are faced with a choice between militancy and moderation, a choice between enterprise unions and industrial unions, and a choice between social isolation and class solidarity. The large-firm workers can't preserve their present conditions or secure jobs without a struggle through labor unions, either. Thus, the militancy of large enterprise unions will continue, except when a company is facing a serious business crisis. Also, in the case of large enterprise unions that lose the driving force of militancy on the shopfloor, the workers' individual adaptation and loyalty to the company or one-sided collaboration of the union with the management will become another alternative.

However, the important decision that the labor movement needs to make is the choice between social isolation and class solidarity, more than the choice between militancy and moderation. Both militant strategies and collaboration strategies are the strategies of large firm workers to maximize their economic interests in large firms that realize high ex-

cess profits under labor market segregation. They have nothing to do with working-class solidarity strategy. In this sense, an innovative strategy is needed to overcome the social isolation of the large enterprise unions and to restore the dynamics and social influence of the labor movement. The most important need for the labor movement is to strengthen the working-class solidarity, an identity as a social movement pursuing social justice, and the ability of labor unions to suggest social agenda and strategic alternatives. The large enterprise unions are still militant and many union activists have a strong will to realize working-class solidarity. The task of strengthening the nature of large enterprise unions as a social movement will start from the question of how they can realize solidarity with non-regular workers.

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Chapter 4

HRM, Employees, and Industrial Relations in Large Size Korean Companies Since 1987

Eul-Teo, Lee*

1. Introduction

This study explores the causal forces behind the formation of militant industrial relations in Korea in terms of the relationship between human resource management, employee characteristics, and employee's job dissatisfaction in large size companies since 1987. Although there are a number of other ways to understand militant industrial relations, such as economic, social, and institutional approaches, I believe the causes of labor struggles are directly or indirectly related to human resource management. In Korea, strikes result from various revealed and hidden motivations. On the one hand, there were invisible causes of strike such as repulsion toward owner's dictatorial management of the firm or request for treatment as human beings. On the other hand, there were also the apparent reason of labor struggle that was related to the field of human resource management such as the request for wage increases, unpaid wage, layoffs, illegal dealing by the company, and of the below standard working conditions. Moreover, the direct cause of strikes is typically related to the dissatisfaction of employees toward the company's human resource management policies or practices. Traditionally, employee's dissatisfaction, which is directly influenced by a company's human resource management policies (Herzberg, 1959), have prompted employees to attempt to improve the source of their dissatis-

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faction through militant behavior. Past researches show ample evidences for workplace dissatisfaction provoking militant attitude and behavior of employees (Dunbin, 1973; Nelson & Grams, 1978; Hartley & Kelly, 1986).

In this study, I will specifically focus on this relationship in large size Korean companies. The collective struggles in large size companies in Korea are massive in scale, and their influence is far reaching in that the strikes often spread to the middle and small size companies. Using their collective resource mobilization capability, trade unions in large Korean companies are responsible for a bulk of major strikes in 1987. For example, the number of strikes between June 29, 1987 and September 13, 1987 reached 3,241 cases in total, of which the number of strikes in the large companies that had 300-999 employees was 567.

On the other hand, the social environment also played an important role in the nature of the relationship between human resource management, employee's job dissatisfaction and their characteristics, and industrial relations. For instance, the Declaration of Great Democracy on June 29, 1987 in Korea helped to ignite the trade union movement toward militant industrial relations for the next 3 years. Yet, in 1997, the social environment changed again when the so-called IMF Financial Crisis affected the Korean industrial relations system, in a much different way than in 1987.

Before taking up the main subject of this study, I would first like to mention the limitations of this research. This study will explore the industrial relation system of large size Korean companies in terms of human resource management and an employee dimension from a historical perspective. In this process, I will investigate the causal relationships between human resource management, employee's job dissatisfaction, and industrial relations through subjective judgment based on literatures published during that period. Prior to 1989, there is on a limited amount of data available on large size companies. Thus, I will construct a theoretical model explaining the relationship between industrial relations, human resource management, and employee's job dissatisfaction including employee's characteristics, and I will infer their relationship in to the context of large size Korean companies.

2. HRM, Employee and Militancy in Industrial Relations

2.1 HRM and militancy in industrial relations

Militant industrial relations a terms used to describe a frequent and disruptive strike and work stoppages caused by the inconsistency in the relationship between employers and employees. There are two distinct ways of conceptualizing militant industrial relations. The first is to see it from a broader perspective by focusing on the attitude toward a labor strike, collective bargaining, and trade unions (Heellriegel, French, & Perterson, 1970; Alluto & Belasco, 1974). The other perspective conceptualizes militant industrial relations more narrowly by only looking at actual participation in a strike and the show of agreement among employees in a labor dispute (Shirom, 1977; Fox & Wince, 1976). According to the past literature on militant industrial relations, industrial relations militancy is either conceived as employee's attitudes toward strike, collective bargaining, and intention to participate in trade unions (Feuille and Blandin, 1976; Fox and Wince, 1976; Alutto and Belasco 1974; McClendon and Klass 1993) or as militant behavior such as participation of employees in trade unions and agreement of employees to go on a strike (Snarr, 1975; Ng, 1991; McClendon and Klass, 1993) as well as the frequency of strikes or work stoppages.

Many differing viewpoints attempt to explain why militant industrial relations arise. The starting point of all industrial relations systems is related to the relationship between management and employees. Whether it is militant or cooperative industrial relations, both are formed in the interaction between employers, human resource management, and employees. Dunlop (1958) said that the key participants involved in the process of industrial relations are management, labor, and the government. Management encompasses owners and shareholders of organizations, top executives and line managers, and industrial relations and human resource professionals who specialize in managing relations with employees and unions. Labor encompasses both employees and the unions that represent them. Employees are at the center of industrial relations (Katz & Kochan, 1994). The term government encompasses

the local and state government, political processes, and government policies that shape how industrial relations proceed by regulating—for example, how workers form unions and what rights those unions may have. Management refers to those individuals or groups who are responsible for promoting the goals of employers and the organization.

Among the participants in industrial relations, employers and employees are actual participants and human resource management plays an important intermediary role in the relationship between employers and workers. Because the human resource management strategy often defines industrial relations as moderate or militant, human resource management has the potential to either make the relationship between employers and employees cooperative or confrontational. For instance, the request for wage increase, unpaid wages, and the improvement of working condition are the reasons for which employees participate in strike. These reasons are to the core issues of human resource management, and therefore human resource management and industrial relations militancy are closely related to each other.

The second reason why human resource management plays an integral part in the relationship between employers and workers is found in strikes and other activities of trade unions, which serve as a means of communication, especially given that human resource management is used by the employers to exercise their intention toward employees. Moreover, the labor value and philosophy of management is embedded in human resource management strategy (Kochan, Katz, & McKersie, 1986). Thus, human resource management practices depend on and are determined by the preferred human resource management strategy of the management. In sum, human resource management plays an important role in determining the character of the relationship between employers and employees.

2.2 HRM in the industrial relations frameworks

The role of human resource management in the industrial relations has been explained in detail by Kochan, Katz, and McKersie's Three-Tiered Model (1994). This model is divided into three levels regarding

industrial relations strategy and stressed that the three actors involved in the process as important decision makers are management, trade unions, and government (see Table 4-1).

The strategic level encompasses the macro dimension of organizational strategy. The actions taken at this level include competitive strategy, investment strategy, and human resource management strategy. The important factor that shapes decisions at this level is the employer's valuation and philosophy of labor. In particular, the human resource management strategy influences the direction of industrial relations. Of course, trade unions will respond to an employer's strategy with their own strategy. Trade unions, as an organizational system, form strategies that impact their members and the political environment.

The middle level of Kochan, Katz, and McKersie (KKM)'s Three-Tiered Model involves actual decisions about collective bargaining and human resource management policy. The key element of this tier is collective bargaining. Traditionally collective bargaining has been conceived only as a tool for resolving the conflict between labor and an employer during the negotiations. However, KKM's model suggests that it is important to consider the *policy* of collective bargaining before the negotiations begin as well as after an agreement is reached.

The workplace level is concerned with the working environment of employees, including management, employee supervision, employee participation, and job design. The focus of this level is on individual human resource management practices including production efficiency, the fulfillment of worker's needs, and the proactive participation of employees. Of course, trade unions also have an influence in shaping the workplace level human resource management.

The decisions made by employers and trade unions at each level are also influenced by the government. The strategic level is affected by the macroeconomic and social policy, while the negotiation strategy of the middle level is influenced by labor law and the administration of government. The workplace working conditions, labor rights, and employee participation are all affected by labor standards set by the government. Additionally, economic environment, technical change, and locus of power, as Dunlop (1953; 1993) suggested, as well as social con-

text and demographics influence human resource management at all levels (Katz & Kochan, 2000).

TABLE 4-1 THREE-LEVEL MODEL OF INDUSTRIAL RELATIONS

Level	Employer	Trade Union	Government
Long term Strategy and policy making	Business Strategies	Political Strategies	Macroeconomic and Social policies
	Investment Strategies	Representation Strategies	
	Human Resource Strategies	Organizing Strategies	
Collective Bargaining and personnel policy	Personnel Policies	Collective Bargaining Strategies	Labor Law and Administration
	Negotiation Strategies		
Workplace and Individual /Organization Relationships	Supervisory Style	Contract Administration	Labor Standards
	Worker Participation	Worker Participation	Worker Participation
	Job Design and	Job Design and	Individual Rights
	Work Organization	Work Organization	

Source: Thomas A. Kochan, Harry C. Katz, and Robert B. McKersie (1994), *The Transformation of American Industrial Relations*, 2nd ed. Ithaca, NY: ILR Press.

2.3 HRM, job dissatisfaction, and employee's militancy

In the framework of industrial relations, we know that both human resource management and trade unions act as agents of employers and employees. For example, management establishes the human resource management strategy, policy, and workplace level practices. Trade union responds to management's human resource policies at each level. Moreover, the central role of trade unions is to promote the interests and well-being of their members (Guest & Conway, 2004). It is important to remember that the interest of employees is typically interact with company policies, wage, promotion, working conditions and the overall workplace environment, as mentioned by Herzberg (1959). And the resulting satisfaction or dissatisfaction of employees is directly or indirectly affect the likelihood of labor disputes erupting. Therefore, company human resource management policies determine whether the job satisfaction or dissatisfaction of employees leads to cooperative or militant industrial relations. At first, I will explain the theoretical relationship between human resource management and militant industrial relations as a background for understanding the Korean cases mentioned in the next chapter.

2.3.1 HRM, job dissatisfaction, and perception of inequity

In 1959, Herzberg, Mausner, and Snyderman argued that there are two sets of factors that affect job satisfaction or job dissatisfaction. One set of factors, composed of recognition, achievement, the possibility of growth, increased responsibility, and the job itself primarily involved job satisfaction. Herzberg called them motivators. The other set of factors, called *hygienes*, include HRM policies, especially pay, promotion, working conditions, company policies, and employee's relations with their supervisors and peers. These hygiene factors were primarily associated with job dissatisfaction. Herzberg theorized that improving hygiene factors would only bring the employees to a state of neutrality. This improvement did not bring about significant increase in job satisfaction, only the absence of job dissatisfaction. Herzberg's theory about job dissatisfaction is useful in explaining industrial relations at the workplace level.

On the other hand, human resource management in itself is often the cause of employee's dissatisfaction, but human resource management does not force employees to display their dissatisfaction---recognizing that it is their right to do so. When employees perceive the extreme inequity of human resource management, they typically present their dissatisfaction to their employers in various ways. Equity, especially, distributive or procedural equity is a causal factor of job dissatisfaction (Dailey & Kirk, 1992). When employees are dissatisfied with their jobs, they may try to change their current work situations by coming up with new and better ways of doing things (March & Simon, 1958; Staw, 1984; Van Gundy, 1987; Zhou & George, 2001). In particular, pay dissatisfaction (Donnewerth and Cox, 1978) and perceptions of pay inequity (Martin, 1986) have been found to be closely related to employee's militant attitudes, such as their favorable stance toward trade unions and their willingness to strike. Schutt (1982) identified that the workers at a public assistance agency who were least satisfied with opportunities for promotion and with service's procedures were most willing to support a strike.

2.3.2 Job dissatisfaction, union commitment and activities

Job dissatisfaction of employees increases the union commitment among union members and often guides future actions of a trade union.

The relationship between job satisfaction and union commitment appears differently in the context of the trade union, as opposed to the culture of labor-management. Generally speaking, low job satisfaction stemming from lack of motivators or high job dissatisfaction stemming from undesirable hygiene factors raises the likelihood of union commitment and the formation of trade unions (Gordon et al., 1980; Fullagar & Barling, 1989). If employees have low motivation and high dissatisfaction, they will more readily agree to the forming of a trade union and display a high level of commitment to the union. Moreover, the inequity of human resource management practices decreases the organizational commitment of employees. As cognitive dissonance between commitment toward the company and union increases, employees who are dissatisfied with their work are more likely to choose union commitment over organizational commitment to avoid their cognitive complexity and to ensure the fulfillment of their labor rights. Martin (1986), examining a sample of nonprofessional public employees, found that favorable attitudes toward unions had the most consistent positive effect on employee's intentions to engage in militant behavior among all the predictors he examined. Bacharach, Bamberger, & Conley (1990) argued that workers are more likely to show militant behavior if they are dissatisfied with their supervisors and if they feel they have little influence over the conditions governing their jobs.

Union members participate in membership activities, attending branch meetings and participating in the electoral process, are more likely to vote and argue for the legitimacy of a strike. Militant attitudes have been found to be positively related to union commitment (Black, 1983) and to the prior use of shop stewards for problem resolution (Schutt, 1982). Ng (1991) found that union commitment was positively related to the rate of voting for the authorization of a strike. Especially, members' attitudes toward unions and their leadership were found to be positively related to the likelihood of strike activity. It is highly unlikely that employees willing to strike (unless against the wishes of the union leadership) would unfavorably regard their union or its leadership (Martin, 1986: 218). Stagner & Eflal (1982) also found that strikers evaluated the union and its leadership more favorably than did non-strikers.

2.3.3 Job dissatisfaction and participation in strikes

The favorable attitude of employees toward trade unions compels them to participate in strikes (Stagner & Eyal, 1982; Martin, 1986), and in turn, trade unions make an effort to actively represent employee's labor rights. In other words, militant employees join trade unions (Klanderman, 1984), participate in strikes, and submit a list of grievances regarding the illegality of their working condition to employers when they feel dissatisfied with their working environment (Hirschman, 1971; Guest & Conway, 2004).

Job satisfaction is related to motivation and job performance, so there is no conceivable reason why employees who are satisfied might resort to militant behavior. However, if employees perceive unequal human resource management practices, then they typically participate in strikes (McClendon and Klaas, 1993), because they desire to reduce their job dissatisfaction. The reason that job dissatisfaction increases the militant behavior of employees is because of the instrumentality of strike. Workers use strikes as an instrumental mechanism by which to recover their labor rights (McClendon and Klaas, 1993). When employees face economic difficulty, they tend to strike for wage increase (Martin, 1986).

2.3.4 Individual characteristics and social support

Individual characteristics are also important determinants of union member's militant attitudes and behaviors. Individual characteristics include age, race difference, gender difference, education level, marital status, and pay level (Martin, 1986; Ng, 1991). Many studies have examined the relationship between militancy and a number of demographic or personal characteristics. The militancy literature suggests that younger and less senior employees are more willing to strike for a personally desirable goal such as wage increase. Schutt's (1982) literature review concluded that individual characteristics, including, male sex, minority race, low salary, low seniority, and youth, among others, were correlated with greater militancy. Another literature review, however, suggested that some of these variables are related to low union participation or activity. Tannenbaum (1965) found that active union members tended to belong to the group with higher pay, skill, and seniority than inactive members. He also found some evidence for higher union activity among older,

married, and male members (Martin, 1986). Snarr (1975) found that strikers were significantly more likely to be male and married and to have nonworking spouses than non-strikers.

The attitude and behavior of employees is sensitive to each individual's respective level of social support. For example, the likelihood of militant behavior increases when employees feel that co-workers around them, neighbors, and relatives show favorable attitude toward strikes (Martin, 1986). In particular, co-worker support greatly influences union members' willingness to participate in a strike and their propensity to cross the picket line (Karsh, 1982). Social support has been shown to be an important determinant of a wide range of behaviors of union members (Montgomery, 1989; Gallagher and Strauss, 1991). Hartley & Kelly (1986) further stressed the importance of the pressures from the co-worker group in strike participation.

3. The Experience of Large Size Korean Companies Since 1987

In this section I analyze the militant industrial relations of large size Korean companies based on theoretical background outlined above. Large size firms are those companies with over 300 employees and at least 80 billion won of capital in the manufacturing industry. Usually if a company has over 1,000 employees, we call it an extra large size company. For the purposes of this study, it is imperative to remember that a large size company is simply a firm with over 300 employees and is in the manufacturing industry.

According to the National Statistical Office, in 2003, the number of large size Korean companies with 300-499 employees was 1,355, and together these firms employed 512,935 people. The number of companies with 500-999 employees was 755, and they had 507,949 employees. The number of Korean companies employing over 1,000 people was 359, and they employed 775,130 individuals. Ten years before, in 1993, the number of large size companies with 300-499 employees was 1,301 (462,224 employees), the number of companies with 500-999 employees

was 900 (586,119 employees), and companies with over 1,000 totaled 605 (1,518,947). This figure implies that the aggregate number of extra large sized firms was significantly reduced between 1993 and 2003.

This study analyzes industrial relations in large size Korean companies during four distinct time periods: before 1987, between 1987 and 1989, between 1989 and 1997, and after 1997. In 1987, there were massive labor disputes stimulated by the Democratization Declaration of June 29, the so called, Great Democratic Struggle of the summer of 1987. The declaration happened because of a political necessity. The main points of the declaration with respect to industrial relations were promotion of free movement of labor, allowing employees to join trade unions, and removing government intervention in labor-management negotiations. The declaration revised Korean labor laws on November 28, 1987 and promoted the establishment of trade unions. Moreover, the solidarity struggle of employees within different geographic areas and different industries, including professionals employed in hospitals, mass media, schools as well as various manufacturing industries, was reinforced.

Between the initial proclamation of the Democratization Declaration of June 29 and September 13, 1987, there were 3,241 strikes initiated nationwide. The percentage of strikes among extra large size companies was 65%, with 567 actual instances of strikes. Moreover, the labor disputes of larger size companies quickly spilt over to small and middle sized companies with growing militancy.

In 1997, there was a financial crisis in Korea—the so-called the IMF Crisis. As a condition for offering the much-needed aid package, IMF demanded a swift economic reform that included a mandate for larger companies to downsize and restructure. During this period, the large size companies in Korea rigorously pursued cost reduction and labor flexibility through layoffs, outsourcing, and the use of contingent workers. Restructuring programs such as downsizing, exchange of business units among large sized companies, mergers and acquisitions, as well as employment adjustment such as layoffs have been pursued by firms under the initiative of the government prompted by IMF.

By dividing the analysis into four phases this study explains Korean industrial relations in terms of human resource management, employees'

job dissatisfaction, and individual characteristics in large size Korean companies.

3.1 The first phase: industrialization in Korea before June 29, 1987

The relationship between human resource management, employees' job dissatisfaction, and industrial relations before 1987 is closely related to Korean economic development during that period. The industrialization of Korea started after the Korean Economic Development Plan was initiated by the government in 1962. This plan was reevaluated every 5 years from 1962 to 1986. The main business plans were different in each of the five-year plans, but all of the business plans focused on developing energy industry, heavy chemical industry, and general technological innovation. Especially, Park administration stressed the rapid development of heavy chemical industry since the 70s, and pursued mass production through building many factories as a means to remain competitive in the global market.

The main emphasis of the Korean Economic Development Plan was on extra large sized companies. These extra large size firms, also called chaebol, were strongly supported by the government and promoted as the leading agents in the Korean economic development (Kim, 1990). During the 1970's, the Korean government thought of export-oriented economic policies as the most important objective to pursue in order to stay on the course of rapid economic development. Consequently, the Korean government encouraged and supported large size companies to produce export-oriented products. Large size firms received preferential treatment (or privileges) from the government. Among the privileges that these companies received was government controlled industrial relations. That is, the Korean government controlled industrial relations through the labor law that was favorable toward firms and through informal restrictions on collective action by workers. Thereby, these companies could wholly devote to producing a large amount of export-oriented items without giving consideration to labor relations. During this time the government hoped to continue stable production of export-oriented products, and in order to maintain the

continuity of production, it restricted the establishment of trade unions.

Before 1987, Korean firms did not adopt systematic human resource management except for hiring and wage management, because companies did not even bother to think about their relationship with employees and trade unions. In fact, human resource management policies that stressed the development and welfare of employees did not exist at all in Korea prior to 1987, and personnel management typically stressed only effective control of employees from employers' perspective. In terms of management style or philosophy, Korean firms traditionally stressed just Taylor's Scientific Management until 1987. There were no established systematic management practices regarding employees and industrial relations with few considerations for employees' well-being or their human rights such as employee development, holistic compensation, retirement, or workplace conditions. It is no exaggeration to say that employees were managed under the dictatorship owners. These practices were unilaterally determined by the company based on the owner's intentions (Park, 1992). Most companies did not have a department to deal with industrial relations or a channel for employees to participate and communicate with management (Park, 1992).

There is another reason why companies were able to maintain company-centered industrial relations. During the period leading to 1987, the size of industries was generally small, and there were not a lot of developed industries (Lee, 1990). Consequently, individuals were considered lucky just to have a job, and employees were pushed to appreciate the owner who was kind enough to offer them the job (Lee, 1990). In other words, even if employees were dissatisfied with their jobs they believed it was not in their best interest to mention this dissatisfaction. In addition, workers during that time did not have strong bargaining power or valuable human capital in the labor market in terms of individual characteristics such as education level and job skills. Most manufacturing workers had limited educational training and few job skills. Also, employee's consciousness before 1987 was only focused on economic well-being. For example, Kim (1992) studied employee's consciousness regarding labor movement activities and trade unions in large size companies. Kim found that most workers agreed with the economic proposals raised by the labor movement, such as wage increases

and the reformation of working conditions. However, the same workers did not favor the political struggle between the company and the trade union. This result shows that employees only hoped to gain more economic benefits than political advantages from the activities of their trade unions.

In sum, the political context of the era reinforced that an individual who supported political actions would be highly disadvantaged, and thereby militant trade unionism was often crushed from the roots. Large size company workers agreed with political trade unionism after 1987 because the membership activities in trade unions became more open with the change in the political environment.

3.2 The second phase: democratization declaration of 1989

Industrial relations in Korea have gone through dramatic changes as a result of the massive labor strikes in 1987. The average number of annual labor disputes in Korean companies from 1975 to 1986 was 165. However, 3,241 strikes resulted from the Democratization Declaration between June 29, 1987 and September 13, 1987. The number of strikes in extra large Korean companies in 1987 was 221, while large size companies witnessed 567 cases. This trend in massive labor disputes continued until 1989.

This study discusses large size Korean companies until the late 1980s, and analyzes the reason why large size Korean trade unions were confrontational toward the management of the companies they belonged to. Especially relevant is the aforementioned Democratization Declaration of June 29, 1987, which is often considered a direct cause of the massive labor dispute that occurred in that year. It is essential to note, however, that job dissatisfaction among employees had been accumulating for many years. Thus, the Declaration of June 29, 1987 simply represents the culmination of widespread job dissatisfaction of employees. This study, therefore, infers the cause of labor disputes by historical causal relationships in terms of human resource management, job dissatisfaction, employee characteristics, and industrial relations.

The reason for the occurrence of numerous labor disputes after the declaration on June 29 was related to the growing inequity in human

resource management in Korea, which, in turn, increased job dissatisfaction among employees. Table 4-2 lists specific reasons for strikes, such as unpaid wage, request for wage increase, layoff, reformation of working conditions, and illegal work, that are related to the factors of job dissatisfaction. Furthermore, the table shows that, prior to 1987, human resource management can be said to be inequitable because employees were often dissatisfied with their wage or policies (Donnewerth and Cox 1978; Martin 1986), which are the core elements of human resource management.

The factors that employees mostly contributed to employee dissatisfaction in this period between June 29, 1987 and September 13, 1987 were wage and working condition. Especially Table 4-2 shows that the number of occurrences for the request of wage hike dramatically increased in 1987. The more concrete issue about the request for wage increase in the large size company was the wage dispersion between blue-collar workers and white-collar workers (Han, 1987). For example, in 1987, the starting wage of a blue-collar worker was 595 won per hour, or 140,000 won per month. In contrast, the starting salary of a white-collar female worker who graduated from high school was 175,000 won per month, and a white-collar male worker's initial salary was 230,000 won. Clearly, these figures demonstrate a disparity in wages between blue and white-collar workers even after controlling for the effect of education. The wage discrepancy between blue collar and white-collar workers existed irrespective of job characteristics and the skill of the worker (Goo, 1987).

Both working conditions and working environment were also important causal factors of job dissatisfaction. For instance, employees requested the reformation of illegal work practices such as unpaid overtime. In addition, workers also requested the abolition of half-day work on Saturdays and executive or manager dining rooms, the introduction of gymnastics time and the right to share the same bus and washstand with white-collar workers (Han, 1987). As shown in Table 4-2, the request of employees to improve working conditions gradually increased in the 1980s, and the number of cases increased 10 times in 1987. Kim (1990) indicated that dual human resource management policies were in effect within large size companies that led to the difference in wage and

TABLE 4-2 REASON FOR STRIKES AND TYPES

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relative deprivation among blue and white-collar workers.

3.2.1 Company-centered hrn and job dissatisfaction

The job dissatisfaction of employees increased because the companies refused to establish trade unions and because the companies primarily implemented company-centered human resource management policies that were not considerate of the employees. The company-centered human resource management means that the company only stresses the production efficiency and manages employees arbitrarily. Most companies did not allow the establishment of trade unions and restricted membership activities among employees. Thus, many researchers have concluded that human resource management in this period was centered on the company and was not concerned with the needs and voice of the employees (Han, 1987; Goo, 1987; Kim, 1990; Lee, 1990; Park, 1992).

Also, companies often administered strong sanctions against employees who disagreed with the company's policy regarding industrial relations. For example, employees who slightly violated a rule established by the company were officially reprimanded, and even if the violation was not particularly severe, the worker may be laid off completely (Park, 1992). This kind of official punishment in Korean firms is similar to punishment-centered bureaucratic processes discussed by Gouldner (1954). Moreover, companies also appointed the director of the trade union, and therefore the organizational capacity and authority of the labor-management council was extremely limited (Park, 1992). The position of the director of the trade union was often filled by the production line manager of the company. Thus, the directors typically had little desire to deal with a problem if the "problem" contributed to the profitability of the company.

In this context, therefore, human resource management only led to greater inequity and dissatisfaction of employees. Most scholars have agreed that human resource management in this period was very patriarchal, vertical, and hierarchical without consideration of employee's well-being and labor rights (Han, 1987; Goo, 1987; Kim, 1990; Lee, 1990).

3.2.2 The lack of philosophy and over supply of the labor force

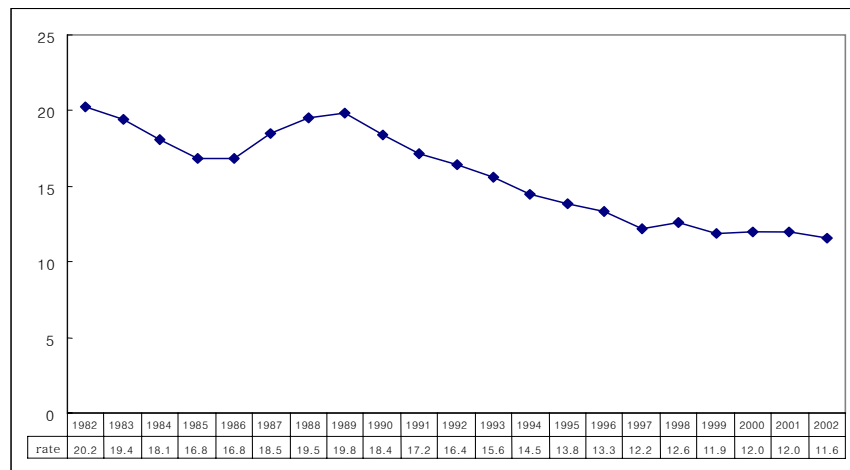
The reason that the company-centered human resource management was rampant during the period leading to 1987 was that the employers placed no value on industrial relations or the workers themselves. Goo (1987), a high government officer, said that employers did not have a philosophy on human resource management and industrial relations, which ultimately led to the sudden rise of labor dispute. Employers did not possess a communal mindset and thought of employees merely as a commodity (1987) - just like Marx mentioned many years ago. Most employers neglected to improve working conditions for employees, or to initiate profit-sharing with employees even with the governmental support. For these reasons, most scholars have indicated the need for change in the employer's consciousness and mind toward employees.

The other reason company-centered human resource management was rampant was the over-supply of workers in the labor market at the time. As previously mentioned, if an employee was selected and hired by a company, they usually felt satisfied simply to have a job in and of itself. Thus, they appreciated their employer for giving them the opportunity to work. Thus, large size companies did not feel the need for more systematic human resource management policies, other than hiring and wage management.

3.2.3 Joining a trade union, union membership activities, and labor disputes

The lack of employer's regard for industrial relations and the over-supply of employees in the labor market made human resource management arbitrary and dictatorial, which, consequently, made employees dissatisfied. The Democratization Declaration of June 29, 1987 triggered the explosion in labor disputes. Before the declaration, employees did not have an appropriate means or channel to express their job dissatisfaction, because of the company's military-like control of workforce. Thus, the Declaration of June 29, 1987 provided employees with the much-awaited opportunity to improve their work conditions, express job dissatisfaction, and demand labor rights.

As a result of the Declaration of June 29, 1987, the number of workers involved in labor disputes in 1987 increased to 120 million

FIGURE 4-1 TREND OF JOINING TRADE UNION

Source: Ministry of Labor (various year statistics).

workers. The percentage of labor disputes within extra large companies was 65%. As shown Figure 4-1, the rate of joining a trade union was 18.5% in 1987 and 19.8% in 1989 (in the entire national economy, including large and small sized companies in Korea). Strike participation within large size companies sharply increased after 1987. For instance, the rate of strike participation of workers who worked for large size companies before 1987 was 35.2%, but reached 89.3% between 1987 and 1991 (Kim, 1992). Furthermore, the rate of trade union activities was 28.2% in 1987, and 63.1% in 1991 (Kim, 1992). These results indicate that employees more willingly joined trade unions and participated in membership activities after 1987.

The massive labor disputes from 1987 to 1989 have resulted from the outburst of the accumulation of job dissatisfaction among employees for a long time. The Declaration of June 29 simply provided the needed trigger (Han, 1987). During this period, government officers and a number of company managers had predicted that there might be massive strikes as employees sought to recover their labor rights and improve working conditions (Han, 1987). In fact, during this period many company trade unions or general unions wanted to settle the problem peacefully through collective bargaining. However, most large size com-

panies did not seriously understand the demands of the employees, and therefore maintained their stance within the fixed rules regarding collective bargaining which were biased in favor of the employers. Thus, employees refused to endure the company's failure to seriously consider their requests and, utilizing the change in labor circumstances brought about by the Democratization Declaration of June 29, overtly and often violently expressed their job dissatisfaction toward the company.

3.2.4 Individual characteristics and the consciousness of trade unionism

The other critical factor that propped up labor disputes in 1987 was the rise of workers' education level and consciousness regarding the labor movement. The average education level was much higher than that at the beginning of the era of industrialization, and the ideology of labor movement became more progressive and militant. However, the large size companies ignored these changes.

Trade unionism before 1987 was economic unionism, not political or militant unionism. For example, Kim (1992) conducted a survey on trade unionism before 1987 and after 1987, interviewing 1,208 employees who worked for heavy chemical companies. As shown in Table 4-3, employees prior to 1987 thought that unionism should pursue a purely economic vein to achieve economic well-being of the union's members through wage increases and improved working conditions. Table 4-3 shows the workers' agreement rate and disagreement rate for economic unionism and political unionism. As shown in Table 4-3, the rate of agreement for economic unionism was 63.5% while the rate of agreement for political unionism was 36.5% before 1987. The result indicates that economic unionism was preferred to political unionism by employees prior to 1987.

However, employees began to favor militant unionism starting from 1991. Moreover, in 1991, the cooperative unionism, which attempts to maintain the friendly relationship between management and employees, significantly decreased from the level before 1987. At the same time, consciousness regarding solidarity struggle within the company increased sharply. Furthermore, many employees supported politi-

TABLE 4-3 THE CONSCIOUSNESS CHANGE OF WORKERS

Desirable unions	Year	Agreement	Disagreement
Purely economic unionism	Before 1987	63.5	36.5
	Feb 1991	52.3	47.8
Cooperative unionism	Before 1987	56.2	43.8
	Feb 1991	46.4	53.6
Solidarity struggle within group	Before 1987	67.6	32.5
	Feb 1991	77.1	22.9
Solidarity struggle within area	Before 1987	62.3	37.7
	Feb 1991	73.2	26.9
Political party participation	Before 1987	48.8	51.3
	Feb 1991	60.7	39.3
Party support of union	Before 1987	75.1	24.9
	Feb 1991	82.5	17.6

Source: H. K., Kim (1992).

cal trade union activities such as support for political parties and political labor movements in 1991.

As a result, the interests of employees before 1987 concentrated on economic security, such as wage increases, in spite of company-centered human resource management before 1987. Moreover, as Kim (1992)'s survey shows, we can conclude that employee's unionism was purely economic unionism, with very little political or militant inklings. However, we can not have complete confidence that the unionism favored by employees was only the economic unionism, for their support quickly shifted toward militant unionism after 1987. This almost instant change of attitude indicates that even if employees did have political unionism prior to 1987, they could not express it because of the government pressure before 1987. But after the free expression was made possible, employees demonstrated their long-subdued militant unionism. It is also probable to assume that another reason for employees favoring political unionism after 1987 is that they witnessed the advantage of going on a strike.

Kim (1992) surveyed economic and militant unionism in terms of individual characteristics, and reported two key findings. The finding was that age, company tenure, and career tenure of employees are significantly correlated with pure economic unionism. That is, the more advanced a worker's age, company tenure, and career tenure, the more likely that they will support union activities that are related to the economic gain of union members. Another finding is that age, company

tenure, and career tenure are not significantly correlated with militant unionism. The result from the second period, however, found that age, company tenure, and career tenure had a significant positive relationship with militant unionism.

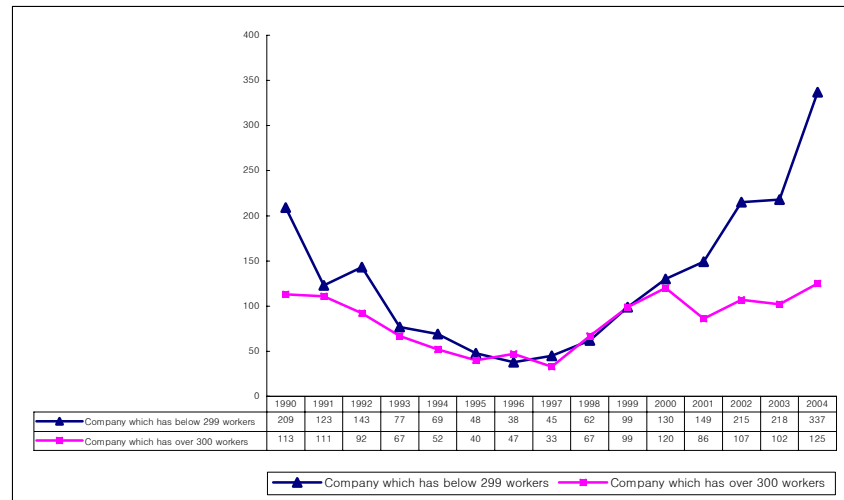
There was also a difference in attitude between employees of different wage levels (Kim, 1992). Lower income workers who received below 600 thousand won per month showed a strong tendency for favoring wage-related struggle, a sense of solidarity, and political orientation. On the other side, higher-wage workers who received over 1,000 thousand won per month showed cooperative and non-political orientations.

Thus, the individual characteristics of workers that Kim observed had a significant relationship with pure economic unionism before and after 1987. However, the same individual characteristics under observation only had a significant correlation to militant unionism after 1987.

3.3 The third phase: from democratization declaration to 1996

The industrial relations of Korean large size companies moderated, turning away from the previously militant era, from 1990 to 1997. The rate of joining a trade union among workers decreased after 1990 and the number of labor disputes in Korean large size companies were reduced to below the level among medium or small size companies after 1998 as shown in Figure 4-2. The number of strike participants was reduced to approximately 100,000 persons. The total percentage of strikes in large size companies that had over 300 employees was 19.6% and the percentage of strikes in extra large size companies that had over 1,000 employees was 15.5%. On the other hand, the percentage of strikes in medium size companies, which have less than 299 employees, was 66.8% of the total strikes in Korea between 1990 and 1997 (See Figure 4-2).

What is different between this period and the pre-1989 period that most large size companies began to pursue human resource management strategies oriented toward labor-management cooperation. This meant

FIGURE 4-2 TREND OF STRIKE IN LARGE SIZE COMPANIES

preventing labor disputes by respecting workers as human beings, implementing participatory human resource management, and enforcing strict hiring. Due to the change in HR strategy, a number of employees became more satisfied with their employment, especially with the wage increases and improved working conditions. For instance, as shown in Table 4-2, there were no strikes caused by illegal working behavior or poor working conditions since 1992.

Additional outstanding transformations were also resulted from this shift in labor management strategy. For example, there was a dramatic reduction in the turnover rate of employees after 1987. Thus, the movement of the labor force during 1989-1990 nearly stopped altogether (Park, 1992). More concrete transformations in human resource management of large size companies are listed as follows:

3.3.1 HRM based on respect for human beings

There were extensive improvements in many areas of labor relations including working conditions, working hours, wages, job environment, and consideration for employees as human beings. The main reformation of human resource management, however, was the increase in fringe benefits for employees. As shown in Table 4-4, the cost of fringe

benefits per employee continued to increase after 1994. The total wage of workers in large size companies also increased during the same period. In fact, although there were no wage gap between medium size companies and large size companies in the 1980s, the difference began to increase after 1987. Also, large size companies reformed production process to reduce monotonous job specialization that often bored the employees, and expanded multi-tasking by all employees. (Lee, 1989). There was also a change in the employee evaluation system. Whereas it was always the boss who rated the employees before, a self-evaluation system was established to provide employees with a sense of autonomy. The data collected using the self-evaluating system was used not only to reprimand and layoff employees, but also to enhance their personal development. Moreover, large size companies even implemented a consultation system that enabled and facilitated the discussion regarding employees' personal or work-related problems.

TABLE 4-4 TREND OF LEGAL FRINGE BENEFITS COST

(Unit: thousand won/per month)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Total cost of legal fringe benefit	55	65	81	98	122	169	183	210	222	224

Source: KLI Labor Statistics (2004).

3.3.2 Participatory human resource management practices

After 1990, several large size companies established a participatory labor management program which encouraged delegation of relational works to employees and boosted the incentive for participation. For example, many large size companies created junior board committees that relayed the line worker's needs and requests to the management. Also, when it comes to laying off workers, employee representatives and management jointly made decisions. Companies also began to inform employees of the company's financial situation. Furthermore, companies instituted specialized education programs on industrial relations for employees and management to take together. After 1990, the traditional time-watch style of labor management disappeared and the new participatory labor management program appeared.

3.3.3 Selective hiring

Large size companies tried to ameliorate industrial relations with strict selective hiring practices. The intention of strict selective hiring was to prevent an individual with militant orientation from being hired as an employee at the company. In fact, although regular public hiring practices in large size companies that were established in the 1960s still continued, the referral method of hiring employees became exceedingly popular after 1990. This method was especially popular when the company was hiring low-skill employees (Lee, 1989). Moreover, the referral hiring practice increased after 1989 in an attempt to prevent labor disputes (Kim, 2003).

As shown in Table 4-5, employees with 5-7 years of company tenure were often hired through referral from a school or through formal channels using public advertisements. This research, conducted in 1991, suggests that large size companies hired employees through referral from schools and public advertisements before 1987. However, workers who have below 3-5 years of company tenure were typically hired by referral from coworkers or company executives (Kim, 1992). Thus, it can be inferred that hiring based on the referral of inside members was popular in large size companies after the Declaration of June 29 in an effort to protect the company against incoming militant workers (Lee, 1990; Kim, 1992).

The reason for the popularity of coworker referral is that workers hired in this manner tend to have a stronger normative commitment toward the organization (Lee & Lee, 2002). This means that employees

TABLE 4-5 HIRING ROUTE OF PRODUCTION WORKERS AFTER 1987

Type	Below 3 year	3-5 year	5-7 year	10-15 year	Over 15 year
School referral	9 (8.6)	23 (8.3)	65 (22.5)	14 (6.6)	1 (1.8)
Job training school referral	16 (15.2)	43 (15.5)	43 (14.9)	33 (15.6)	2 (3.5)
Coworker referral	34 (32.4)	64 (23.1)	51 (17.6)	42 (19.8)	18 (31.6)
Management executive referral	11 (10.5)	36 (13.0)	20 (6.9)	11 (5.2)	1 (1.8)
Recruitment advertisement	22 (21.0)	86 (31.0)	79 (27.3)	93 (43.9)	29 (50.9)
Others	13 (12.4)	25 (9.0)	31 (10.7)	19 (9.0)	6 (10.5)
Total	105 (100.0)	277 (100.0)	289 (100.0)	212 (100.0)	57 (100.0)

Source: H, K, Kim (1992).

tend to commit to an organization through a sense of obligation or psychological pressure (Meyer & Allen, 1997). Thus, if an employee is hired by referral or through a social network, the employee tends to adhere to the goals of the organization – and thereby less likely to participate in labor strikes.

3.4 The fourth phase: financial crisis and performance-oriented HRM

During the period between 1987 and the middle of 1990s, large size Korean companies pursued human resource management policies oriented toward cooperative labor-management. However, the companies had to switch the gear again to performance oriented human resource management strategies due to the IMF financial crisis. The austere external conditions forced companies to dramatically reduce their workforce through downsizing and restructuring. Thus, organizational efficiency became the priority, and human resource management was important only in its auxiliary capacity for improving the economic performance of the firm. Employees had no choice but to acquiesce to their company's human resource management policies, such as hiring of contingent workers, performance-based reward, and the necessity of layoffs for the survival of the company during the crisis. After 1997, human resource management began to be characterized by its performance-oriented strategy that was divided into policies that called for a reduction in the number of employees and result-oriented policies.

3.4.1 Slim human resource policy

As aforementioned, large size Korean companies sought to reduce the number of employees after 1997. First, the companies implemented a strategy in which they hired contingent workers, such as part-time workers in an effort to lower the burden of labor cost and to get numerical flexibility in labor cost. As shown in Table 4-6, the employment rate of contingent workers in 1997 was 5.2%, but the percentage rose to 10.21% in 2001. Thus, the employment rate of contingent workers increased significantly, especially in large size companies after 1997.

TABLE 4-6 EMPLOYMENT RATE OF CONTINGENT WORKERS

	1997	1998	1999	2001
Company that has below 99 workers	10.24	14.75	17.82	11.16
Company that has between 100 to 299 workers	4.23	6.39	7.33	9.32
Company that has over 300 workers	5.21	6.45	8.29	10.21

The whole workers in the company divided by contingent worker is the rate of contingent worker.
Source: D. B., Park (2003)

Secondly, internal job posting and irregular hiring increased after 1997. Adoption of internal job posting practice means that a company tries to hire employees in the internal labor market instead of the external labor market, in an effort to achieve staffing efficiency and to give employees new career motivation. In 2002, 34.8% of large size companies established internal job posting system. However, the proportion of firms practicing internal job posting among medium size companies was below 19.1%. Also, large size companies changed their recruitment strategies; that is, whereas previously they had hired employees through regular public recruitment channels, after 1997, they resorted to an irregular recruitment policy through which they hired on a need basis. This trend shows that companies were no longer investing in the development of employees, but were instead simply buying employees when they needed to in an effort to save on training costs.

Thirdly, companies conducted and encouraged an early retirement program to reduce the burden of labor costs in the future. A seniority based wage system was common in Korea at the time, but companies did not favor paying high wages simply based on seniority. As shown in Table 4-7, early retirement programs were more popular in large size companies than medium sized ones. According to a survey by Ahn(1997) and the Korea Labor Institute (2002), a few companies established an early retirement program in the 1980s, but the majority

TABLE 4-7 THE RATE OF ESTABLISHMENT OF EARLY RETIREMENT PROGRAM

	H, T., Ahn (1997)	Ministry of Labor (2000)	KLI (2002)
Company that has below 299 workers	6.3	8.9	8.8
Company that has over 300 workers	26.7	30.3	11.2

Source: D. B., Kim (2003).

used them in the early 1990s.

3.4.2 Result-oriented human resource policy

After the financial crisis of 97, a growing number of large size companies adopted result-oriented human resource management policies to enhance individual and organizational performance. In fact, although a few public companies gave employees performance-based pay in the early 1960s, the wage structure of most companies in Korea remained seniority based until late 90s (Ahn, 1989). However, most large size companies switched to performance-based pay system in only a short period of time. According to the Korea Labor Institute (2002), the rate of the performance-based pay system in large size companies was only 1% in 1980. The number of companies adopting performance-based pay increased rapidly after 1995 and reached 27.8% in 1999. As shown in Table 4-8, the proportion of large firms that practice performance-based pay in 2002 was 60.3%.

TABLE 4-8 PERFORMANCE BASED PAY

	Korea Labor Institute (2000)	Korea Labor Institute (2002)
Whole industry	33.5	47.1
Company that has below 99 workers	31.8	39.1
Company that has between 100 to 299 workers	34.1	47.2
Company that has over 300 workers	33.5	60.3

Source: D. B., Kim (2003).

Also relevant is the institution of result-based evaluation system. Large size companies created an elaborate scheme of result-based evaluation methods to reward employees based on their on-the-job performance. For example, management by objectives (MBO) was a popular HR management practice after 1997. The rate of adoption of MBO was below 10% before 1998, but increased to 13.0% in 1999 and to 20% in 2000. According to the Korea Labor Institute (2002), the cumulative adoption rate of MBO was at 50.6% among large size companies in 2002 (see Table 4-9). Also, to get a fair result-based evaluation outcome, many companies established a 360 feedback evaluation system (see Table 4-9).

TABLE 4-9 MBO AND 360 FEEDBACK EVALUATION SYSTEM

	MBO	360 Feedback
Whole industry	31.8	16.2
Company that has below 99 workers	20.1	10.8
Company that has between 100 to 299 workers	31.9	16.4
Company that has over 300 workers	50.6	24.6

Source: KLI (2002), Panel research.

In addition, companies also encouraged employees to manage their performance and seek out training to update their skills on their own initiative. In fact, most companies in Korea educated and trained employees both when they entered the company and throughout the duration of their employment. However, the number of company sponsored education and training dramatically decreased after 1997. The internal training cost in large size companies in 1987 was 0.9% of the total labor cost. That number increased to 2.1% in 1996. By 1998, however, it had decreased to 1.2% (Kim, 2003). The reason for this shift was that many large size companies simply could not afford to invest in employee training after downsizing and restructuring in 1997.

Furthermore, companies began to stress that individual performance should be linked more closely to the organization's performance. To this end, firms began to implement profit-sharing programs to tie employee's performance with organizational performance. According to the survey by the Ministry of Labor (2000), profit-sharing programs existed in 1980s, yet the rate of adoption was below 10% before 1994. As shown in Table 4-10, the adoption rate of profit-sharing programs in large size companies was 35.5% in 2000 and 36.2% in 2002. Moreover, profit-sharing programs were more popular among large size companies than among mid-size companies.

TABLE 4-10 PROFIT-SHARING PROGRAM

Profit-sharing and Group reward	Korea Labor Institute (2000)	Korea Labor Institute (2002)
Whole industry	32.6	23.2
Company that has below 99 workers	25	15.2
Company that has between 100 to 299 workers	31.5	24
Company that has over 300 workers	35.8	36.2

Source: D. B., Kim (2003).

4. Conclusion

This study attempted to explain the industrial relations of Korean large size companies in terms of the relationship between human resource management, employee's job dissatisfaction, and individual characteristics. Although there are a number of ways to think about the causes of militant industrial relations in Korea, I argue that the primary causes of labor dispute are directly or indirectly related to variance in human resource management strategies in Korean firms. To explore this relationship, I first introduced various theories on the relationship between human resource management, job dissatisfaction and individual characteristics. I also traced historical evidence based on literature about industrial relation in Korea that explains the relationship between human resource management and worker's attitudes and behaviors since 1987. Table 4-11 lists the findings of this research and the core characteristics of industrial relations in each period.

First, human resource management policies of large size Korean companies before 1987 were not open to negotiations in personnel management and were firmly centered on the interest of the company. So, it can be said that the overall labor relations structure was very dictatorial, unsystematic, and did showed very little regard for employees as human beings (see Table 4-11). The reason that such unbalanced company-centered human resource management policies were even possible was because of the strong support of the government, which needed the companies to operate without interruption in order to promote its export-oriented economic policy. The government sought to control industrial relations by exerting governmental authority on bargaining tables and enacting labor laws favorable to the company in an effort to maintain stable production. Under this system, large size companies did not have to consider the well-being or labor rights of their employees. Their only concern was the sustained and efficient production. As a result, human resource management concerns such as training, career development, performance evaluation, retirement program as well as fringe benefit and job design were neglected.

During this period, employees found that they could not freely or

TABLE 4-11 THE TREND OF HRM AND LABOR DISPUTE

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adequately express their dissatisfaction, despite the inequity of human resource management policies and dictatorial human resource management practices, because both the government and society put the goal of economic development above the rights of workers. Also, if employees joined a trade union, they were not only at the risk of facing reprimands from the company, but may also be informally sanctioned by the government. Thus, union activities were implicitly prohibited before 1987.

According to the survey by Kim (1992), employees also prescribed to pure economic, rather than militant, unionism before 1987. This is evidenced by employee's primary interest in economic gain through wage increases. The primacy of economic concern also demonstrates that employees during this time were able to turn the unfair human resource management policies to their parochial economic advantage. Furthermore, the political context of the time made it difficult for employees to hold a political or militant attitude toward the company. Also, in terms of cognitive dissonance, it was reasonable to assume that employees preferred economic unionism in order to benefit economically and avoided any major struggle against the company that could cost their job.

However, workers in large size Korean companies began to boisterously express their dissatisfaction after the Democratization Declaration of June 29, 1987. The average number of annual labor disputes among Korean companies from 1975 to 1986 was only 165. However, the number of strikes increased sharply to 221 among extra large Korean companies and to 567 among large size companies in 1987. This upward trend of massive labor disputes continued until 1989.

During this period, the main causes of job dissatisfaction were the wage inequality and poor working conditions. This increase in job dissatisfaction was evidenced by the rise of the rate of trade union participation and activities, which increased from 28.2% before 1987 to 89.3% after 1989 among large size Korean production workers.

In response to the changes in labor movement, large Korean companies adapted their labor relations strategy by abandoning the company-centered human resource management system and adopting cooperative human resource management system instead (see Table 4-11). This change in HR strategy initiated the more humane treatment of em-

employees, participatory programs and selective hiring practices. The reason for this change was that, after massive labor struggle for 3 years, companies felt the need to consider employees as valuable assets. As a result, companies established programs that encouraged flexible working schedules, multi-tasking or job enlargement, self-evaluation systems, consultation programs, and the establishment of a committee of junior board. Companies were also expected to report their financial situation to employees and implement a joint decision-making system in which employee representatives have a say in layoff decisions. Interestingly, during this period, large size Korean companies tried to prevent potentially militant workers from entering the workforce by utilizing referral-based hiring practices on the recommendations of inside workers and executives. As a compound outcome of the more cooperative human resource strategy and selective hiring methods, job dissatisfaction of employees was significantly reduced, and the number of labor disputes has also decreased after 1990.

There was also a change in the association between individual characteristics of workers and their tendency to participate in political union activities after the Democratization Declaration of June 29, 1987. After 1990, individual characteristics such as age, company tenure, and career tenure were positively correlated with militant unionism after 1990. The change in employee consciousness and attitude was triggered by the Declaration of June 29, 1987. Based on the changes in the relationship between militant unionism and individual characteristics with 1987 as the pivotal point, it is possible to deduce that employees must have expected to gain economically after the Declaration of June 29, 1987. That is, employees must have known that if they expressed their rights, especially by mobilizing large scale strikes against employers, they can get what they want.

Later, large Korean companies made a leap toward performance-oriented human resource management policies. The most important causal factor behind this change was the financial crisis, more commonly known as the IMF crisis in Korea. As a result of the crisis, large size Korean companies had to reduce the number of employees in their mandatory restructuring process. In order to do so, companies adopted

performance-oriented human resource management systems. Companies generally employed two strategies to meet their goal. The first strategy was to pursue of numerical flexibility, which simply means reducing the number of regular employees by implementing such practices as hiring of contingent workers, internal job posting, irregular staffing and early retirement programs. The other strategy was to the adoption of result-oriented policy that encouraged performance-based wages, management by objectives, 360 feedback evaluations, and voluntary individual development.

Employees also had to just accept the company's switch to performance-oriented human resource management strategy brought on by the IMF crisis. In fact, social consensus was forming in favor of large size company, not the employees, despite the massive layoffs implemented at the early stage of the crisis. Thus, despite the rising dissatisfaction among employees regarding wage during the crisis, and despite the fact that collective bargaining still existed, the number of strikes dramatically decreased.

In conclusion, the industrial relations of large size Korean companies was often influenced by the environmental stimuli such as the Democratization Declaration of June 29, 1987 and IMF crisis in 1997, which led to changes in human resource management strategies. The changes in human resource management, in turn, shaped how employee would respond and act. Although human resource management strategy was biased toward companies prior to 1987, employees did not show militant attitudes and behaviors, such as joining trade unions, participating in union membership activities, and participating in strikes before the Declaration of June 29, 1987. Employee's militant attitudes and behaviors became more pronounced between 1987 and 1989, because social support existed due to the change in the political context. The orientation of dominant human resource management model also changed to more cooperative one after the Declaration of June 29 in 1987. After the IMF crisis in 1997, the situation was reversed yet again in that employees could not freely express their concern or go on a strike, despite several layoffs. Based on the evidence provided by the historical trends in large size Korean companies, I conclude that historically specific exter-

nal contexts often had the critical determining effect on whether the employee's attitudes and behaviors were militant or cooperative toward the companies they worked for.

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Chapter 5

Corporate Governance and Industrial Relations in the Korean Business Conglomerates

Soonwon Kwon *

1. Introduction: why is it important?

Large corporations in Korea have a unique characteristic that distinguishes them from comparable companies in other countries. The distinguishing feature is the *chaebol* system, which is characterized by the integration of ownership and management. These groups of firms are controlled by families that not only own the majority of voting shares, but also control the management. In addition, the system was embedded in a close collaboration between the state and banks, forming “the state-banks-*chaebols* nexus” (Shin & Chang, 2003).

For a couple of decades, the characteristics of *chaebol* system have been considered to be the major engine for the world’s fastest industrialization and economic growth, and have received worldwide attention as an alternative institution for the next generation of industrialization. However, the *chaebol* system has been subjected to a widespread criticism as an inefficient and unfair institution since the 1997 crisis. The harshest criticisms are directed at the lack of transparency in its corporate governance system, an absence of managerial accountability, and the ‘dictatorship’ of the owners as the dominant shareholders. In the end, the promising engine of an alternative mode of economic development became a dead machine since ‘the day’ of crisis.

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With the crisis in the background, the issue of corporate governance has rather suddenly begun to draw attention in Korea. Needless to say, this attention is due, in part, to the IMF program. Under the bail-out agreement, IMF demanded the fundamental restructuring of the governance structure of private corporations (mainly, *chaebols*), and requested the remoulding of the system into an Anglo-American one based on the principles of minimal state, arm's-length contractual relationships, and short-term financial profitability (Shin & Chang, 2003: 2). Regardless of the appropriateness of the IMF policy for systemic restructuring, corporate governance issues came to receive extensive attention since that time.

The 1997 crisis instigated the emergence of the issue of corporate governance, but this new issue has come under the spotlight mainly in economics and business management—especially in financial economics, because of the many problems that have arisen from the unique financing structure of Korean *chaebols*. Other subjects of corporate governance have not been worked out even until now. For example, in an Anglo-American atmosphere, a hostile takeover and managerial discipline is a very important topic of corporate governance, but in Korea, the market-oriented disciplinary mechanisms for corporate control does not function properly. In addition, in Japan, the employee sovereignty issue in the corporate governance structure is a very important topic, but again, in Korea, *chaebols* rely heavily on family ownership and the owner's managerial control, and exclude employees from governance functions.

In the light of this limitation, this research deals with corporate governance issues in the context of employment relationship and industrial relations practices or vice versa. There are several reasons for this. First of all, while labor-management relations have certainly been an important part of corporate governance, they remain of very limited significance when explaining the corporate governance structure or phenomena. Second, employees have substantial firm-specific investments, which put them at risk through the wage restraint during the period of lower seniority levels and firm specific skill attainment. Thus, the risk gives employees an incentive to monitor corporate accountability (Jacoby, 2005) and to participate in the corporate governance process.

Third, in regard to the business operation of a corporation, the Korean corporate system does not have appropriate monitoring mechanisms to ensure that the firms are efficiently managed—such as market competition, hostile takeover, a good board of directors and concentrated shareholders or institutional investors with voices. The potential of employees as insiders should be well-realized when they play the role of watchdog to check the business management.

Therefore, I would like to use this study to analyze the institutional complementarities of the corporate governance system and industrial relations practices. Chapter 2 deals with the basic conception of business enterprises from a comparative perspective, and Chapter 3 contrasts the institutional complementarities in different corporate governance models in terms of industrial relations practices. In Chapter 4, I argue that the Korean system of corporate governance and employment relationships rely on very low level of institutional complementarities, and it makes Korean labor-management relations unstable and underperforming. Chapter 5 (conclusion) will summarize the main argument and predict the future perspectives of the corporate governance-employment relations nexus.

2. Business Enterprise and Corporate Governance

2.1 Structure of business enterprise

Corporate activity is performed by various people who have different qualifications in various areas. A stockholder and a bank offer financial capital for investment, and workers provide their labor power consisting of skill, knowledge and energy. A business organization functions by coordinating these various factors. In addition, each company may work together with other companies in one sector of market, and may compete against each other in other sectors.

In order to figure out the principle by which an economic system is organized, it is important to examine how the following three concepts are considered in such a system. First, there is the *concept of a company*: Who owns a company?; Second, there is the *concept of sharing*: Who con-

tribute what and who receives what; Third, we have the *concept of market*. How does it connect firms to financial capital, labor power and other companies?

2.1.1 Ownership

First of all, the questions of who owns a company and ‘for whom the company is managed’ are the most fundamental issues among the topics of a corporate system, and the answers define the general conception of a company in the existing economic context. Regarding the question of who owns a firm, the most substantial constituents can be roughly classified according to these three categories: the individual equity owner or institutional investors as contributors of financial capital (shareholders), the corporate business managers who provide their managerial capability, and the laborer as a contributor of skill, knowledge, or energy in manufacturing products or providing services. Who is supposed to possess the company among these three groups? The answer determines the root of the conceptualization of a business corporation, and the conception of corporate structure.

Corporate business is carried out by the respective contributions of these substantial three groups and the active combinations of each group’s contribution. In this respect, the above conceptual question would be extended to the following operational question: How do a manager and laborers become incorporated into a ‘coordinated’ business operation? In other words, how do the different groups function in a business organization and get compensated from the business outcome. The questions ask not only ‘Whose company is it?’ but also denote how they share their risks and how they are remunerated in a particular distribution mechanism of business returns.

2.1.2 Sharing

The systemic pattern of the sharing of obligation and the remuneration of a value-added in business firms is defined as the sharing mechanism, and it becomes the basis which determines organizational integration and the coordination of the three constituents: shareholder, manager and employees. That is, firm managers organize the principal factors for corporate businesses in a particular sharing mechanism, and

incorporate them into their business operations.

The primary elements constituting the corporate sharing mechanism include each factor on a sequential stage of business operation: first, an input of production factors into the business operation; second, managerial decision-making in the transformation of input into productive output; and third, an output (value-added) as a result of the business activities.

The most fundamental inputs in corporate activity are financial capital and labor power with knowledge and skill. When contributors bear their obligatory shares in different forms, such as capital and labor power, they usually take a certain level of risk. This is the sharing of input in the business operation, and the particular ways to define the risks and divide those into the groups are the input-risk sharing mechanism. The process which transforms the input into products or particular services and produces a value-added is performed by sequential decision-making procedures. The sharing associated with the decision-making is represented in the degree and method of the participation of the contributors in the decision-making process (whether it is shared) and the distribution of decision-making authorities in the operation. As a result of the business decision-making with various inputs, a firm produces value-added products or services. The business profit, usually in the form of value-added products, is shared with each contributor according to the amount of the risk which they take in the business operation. Therefore, employees as contributors of labor power get remunerated in the form of wages or fringe benefits, and shareholders, as a money provider, are compensated in particular ways, such as with dividend, interest or other market-based returns. Last, the corporate managers are usually rewarded according to their managerial performance. This is the output sharing, and the above explanation outlines the various mechanisms of sharing. In short, the sharing mechanism in corporate business activities reflects the method as well as the principle of the risk-sharing by each contributor and the distribution of returns to them.

2.1.3 Market

The third essential factor which is considered significant in a corporate system and managerial operation is the market. The market or-

ganizes information about capital, labor power, production materials and even business managers and transmits the information to a particular firm. Through the market, business firms exchange their information as well as make business transactions. Furthermore, a market divides labor (social division of labor) and distributes it into appropriate positions. In sum, a business corporation is associated with the out-of-firm factors through the market, and it also integrates its inside constituents into the managerial operation through a particular market mechanism. Among the variety of market functions, this research focuses on the market mechanisms of corporate financing: Whether it is a coordinated market or a *laissez-faire* market.

2.2 The comparative analysis of the corporate system in Korea

The corporate system in Korea is considered to have a fairly different organizational structure from the firms in other countries, such as the USA, Japan and Germany, in terms of the three conceptual factors which are discussed above: *ownership*, *sharing* and *market*. In particular, in terms of corporate ownership and managerial control and modes of corporate governance, Korean business corporations, which are characterized by family ownership, corporate management by the owner-managers, and monolithic governance structure, have been structured differently from the shareholder-oriented governance in the United States, the statutory stakeholder governance in Europe and the employee-centered stakeholder governance in Japan (Jacoby, 2005; Ito, 1989). The table below (Table 5-1) exhibits the differences and similarities of corporate system in three countries, associated with the three concepts.

Generally speaking, the American corporate system seems to be close to the typical neo-liberal capitalism characterized by the arm's length contractual relationship based on a liberal market (shareholder sovereignty), but the Japanese system of business corporation is organized as a 'relational association' under the coordination of an organized market (stakeholder sovereignty, particularly for employees).

By contrast, the Korean system is designed under a different mechanism. Large Korean corporations are primarily owned, managed,

TABLE 5-1 COMPARATIVE DEFINITION OF CORPORATION SYSTEM

	Korea	Japan	USA
	Owner Sovereignty:	Employee Sovereignty:	Shareholder Sovereignty:
Concept of a company	Full sovereignty of a owner-manager	Sovereignty of employees (labor and inside manager)	Sovereignty of shareholder and managers' authority
Concept of the sharing	Monolithic sharing	Diffused sharing	Monolithic sharing
Concept of a market	Coordinated market	Coordinated market	Liberal market

and controlled by *chaebol* families. That is, most big business firms are family-owned conglomerates, and the owner-manager of a *chaebol* has the full sovereignty over the corporate group with an owner-centered sharing mechanism (monolithic) embedded in coordinated market organized by the state (repressively coordinated market).

Even though multiple stakeholders contribute to the growth of *chaebol* firms, the majority of the stakeholders do not have any influence on the corporate decision-making process. For example, employees and unions do not have the institutional channel or right to participate in governance functions. Labor-management joint councils exist in large corporations, but they largely serve only as an advisory system rather than as a decision making body (Chung et., 1997: 67). As a result, Korean *chaebol* firms have been unilaterally controlled by the *chaebol* families are also the dominant equity holder. In addition, Korean *chaebols*, which were created and supported by the 'developmental state', took their businesses out of the market mechanism and carried out businesses under the protection of the state. The primary financial capital was provided by the government-controlled commercial banks. Other state policy instruments have also been very favorable to *chaebol* businesses—for instance, low-interest loans, favorable foreign exchange rates, preferential tax treatments, and various support programs. In summary, Korean *chaebol* firms are constructed on the basis of 'the state-banks-*chaebols* nexus' that operated on a close cooperation and consultation among the *chaebol* owner-managers, the government and commercial banks (Shin & Chang, 2003). In the following analysis, I examine the comparative characteristics of the Korean corporate system in terms of the three conceptual factors: ownership, sharing mechanism and market institution.

2.2.1 Corporate ownership and full sovereignty of an owner-manager

The sovereign of a person or a group of people indicates that they are in possession of the right to carry out important decision-making for the corporate business as well as the right to receive preferential share of the economic outcome (profits) which the company produces¹.

As Alfred Chandler (1977, 87) described when he examined modern business enterprises, ownership and management were separate from early stage of capitalist development in America. Therefore, the large-scale American enterprises have to mobilize financial capital from many dispersed shareholders, who demand sovereignty. At the initial stage, the combination of a huge enterprise, concentrated management, and diversified stockholders shifted corporate control from shareholders to managers because the equity holders were too dispersed and unorganized (Roe, 1994, 4). However, recently, especially, in the last 20 years since the early 1980s, there has been a shift of power within the American corporations away from managers and other employees to shareholders² as evidenced by the increase of hostile-takeovers and the growth of institutional investors as a powerful voice in corporate decision-making (Jacoby, 2005: 35).

The shareholders (equity owners) who invest financial capital are considered to have the sovereignty over a public business corporation, because they are considered to be taking a substantial risk. Therefore, in the United States whose market structure is supposed to be most close to the theoretical laissez-faire market, most business firms develop a presumption that shareholders are the sole group with legitimate au-

1) The concept of 'sovereignty' or 'sovereign' has a strong meaning. In this research, however, it doesn't mean that only the 'sovereign' have the whole power in a corporate operation and outcome distribution, but it means that people or a group who own sovereignty are most influential within the corporation.

2) The growth in institutional investment has been an important factor behind this (Jacoby, 2005). Institutional ownership of US corporate equities rose from 29% in 1970 to 45% in 1990 (Blair 1995: 45-46). The greater concentration of ownership made it easier for 'corporate raiders' to assemble majority coalitions to bring about changes in control (Donaldson 1994). Other factors leading managers to pay more attention to shareholders are the recent innovations which have induced individual investors to enter the market, to trade rapidly and cheaply, and to speculate on short-term price movements. The result is greater pressure on managements to produce short-term results and a quasi-speculative atmosphere in equity markets (Odean 1999; Shiller 2000: 39)

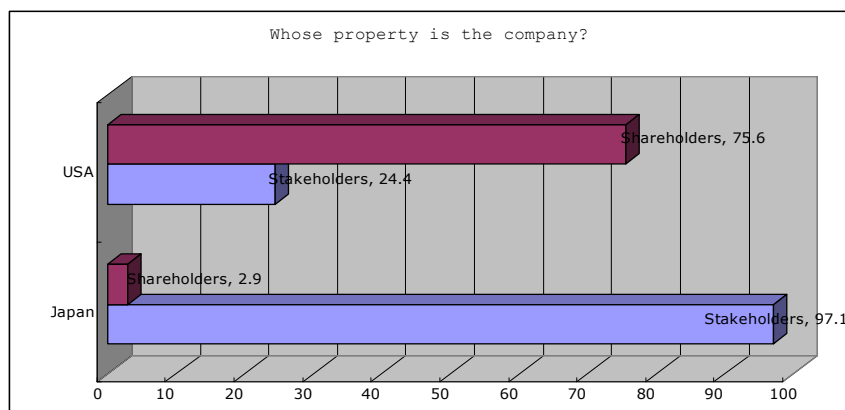
thority to monitor and influence management decision-making. However, in spite of the power shift to shareholder groups, managerial power in large American firms still remains very high at several points. The link between shareholders and management in US corporations occurs through corporate boards, which are legally required to represent shareholder interests, and through economic devices, such as stock options, that are designed to align management decisions with the interests of shareholders (Jacoby, 2005).

In sum, shareholder sovereignty (i.e. the company belongs to a shareholder) has represented a general concept of the American business firms embedded in liberal market system. However, we should also consider that in spite of shareholder sovereignty, American managers have a substantial power in the operation of the 'shareholder's firm'.

In contrast, the ownership of Japanese corporations is very concentrated. The prevalence of interlocking shareholding is one of the most striking features of the large Japanese firm. The ownership structure is complementary to the insider-based system of corporate governance and the way that the employment system in Japanese firms operates. By engaging in extensive share interlocks, the managers of Japanese firms are effectively able to insulate themselves against the threat of external takeover (Aoki, 1987; Nakatani, 1984; Sheard, 1986, 1994). Under the condition, Japanese corporate actors (both business managers and laborers) in business firms, especially in big companies, give tacit agreement to the assumption that 'the company is the organization for the employees.'

Furthermore, when Japanese employees and employers were asked who has the property rights over the company, almost all of them said that "it is the employees', not the shareholders' (*kaisyawa jnygyoinno mono*) (Figure 5-1)"; that is to say, the employees have a powerful influence on corporate decision-making related to the business operation which includes input, production process and the sharing of output. Moreover, it means that business managers also have the same idea about the conception of a company because employees in the Japanese context include both workers and business managers.

In sum, Japan assumes that the business corporation is the prop-

FIGURE 5-1 COMPARATIVE CONCEPTION OF A COMPANY IN UNITED STATES AND JAPAN

Surveyed by Nihonkeijashinbun: USA – 82 & Japan–68.

erty of all of the stakeholders who are involved in the corporate business operation, and among them, employees, who provide their knowledge and loyalty, is considered to be the most important stakeholder.

Owner sovereignty means that a corporation is possessed and governed by the owner. In this system, the dominant stockholder who owns the majority of equities becomes the substantial sovereign as the owner as well as the business manager.

The corporate sovereignty structure of large Korean *chaebols*, a group of industrial firms, is characterized by family ownership and the owner's managerial control, and their governance mechanism is characterized by inter-locking ownership. The business managers (actually, operators) in Korean *chaebols* are typically insiders, formally elected at the shareholders' annual meeting, but usually appointed by the corporate owner who is the substantial sovereign of the company.

The power that the Korean *chaebol* owner used to exercise over the corporate business is absolute, and it doesn't permit any inquiry about the property rights of the company. In addition, these *chaebol* owners are reluctant to go public for fear of losing their corporate sovereignty. For example, in 1995, only 172 out of 623 companies under the 30 largest *chaebol* groups were listed in the stock exchange. This accounts for only 27% (Chung et., 1997: 58). Individual stockholders (minor equity own-

ers) are powerless in the corporate decision-making process, because their shares are too dispersed. Moreover, employees also don't have influence on the business operation, because they are not allowed to participate in the decision-making process.

As a result, the owner-managers of Korean *chaebol* are often not held accountable for their performance, while American managers are monitored by the shareholder group and disciplined through various market mechanisms such as hostile take-overs. Japanese managers are also under constant surveillance by their employees, and they make themselves more accountable for the business operation and the employed workers. However, Korean owner-managers did not have to mind their stockholders' voice or their employees' monitoring in terms of business performance. The failure cost from bad business decisions is easily transferred to the dispersed minor stockholders and employees. In addition, the corporate governance structure of large Korean corporations doesn't have an appropriate business monitoring mechanism by various stakeholders, especially the employees and shareholders. Absolute sovereignty of owner-manager is the most visible feature in Korean *chaebol* companies, and the managers completely monopolize the right of business decision-making.

2.2.2 Sharing mechanism

The corporate sharing structure (the way in which the business operation is coordinated) is based on three factors: *information*, *value-added* and *decision-making*. *Information* is the knowledge of technology and the market which are exploited in the process of business operation; *value-added* is the residual value attached to the final products or services after subtracting the cost of materials used in the operation, that is to say, a profit; *decision-making* is a set of processes in making a business decision, and the type of decision-making is differently organized by the combination of the mechanism of information sharing, the way of the employee participation, and the organizational coordination of disagreements of opinion in the business firms.

The sharing mechanism of Japanese companies is characterized by the "decentralized and horizontal coordination" (Aoki, 1988) based on broad knowledge-sharing, extensive communication and employees'

participation in corporate decision-making. The value-added, which is the business profit, is also shared between various stakeholders, particularly taking the employees' interests into account, through organizational coordination. The knowledge which is created and developed by a single part of the business firm extends beyond a particular jurisdiction through the comprehensive communication channels and horizontal coordination.

Furthermore, labor and management voluntarily establish consultation bodies (management-labor joint councils) to discuss various business agendas, and make important managerial decisions through the coordination channel. Through the councils, employers provide important business information to employees and their unions, and unions cooperate with the management in increasing productivity. As a result, increasing productivity enhances employment security, and the value-added from the increased productivity is distributed fairly between the employees, the firm, and the investors, in accordance to their contributions (Araki, 2005: 276).

On the other hand, the sharing structure in American companies is characterized by centralized vertical coordination based on a systemic separation of knowledge and technology between manager and worker and the exclusion of employees from participation in decision making bodies.

American business firms have emphasized worker specialization and job differentiation throughout its industrial development. The idea is rooted in the belief that, "through the application of the principle of "right man in the right place", each worker and the firm would be able to make the best use of any particular talents or different skills" (Aoki, 1988: 12). In the system, the operating task is separated from the task of planning business strategies and developing managerial knowledge.

The relationship between labor and management associated with the sharing of decision-making in the US has been notably featured in the professional and hierarchical control of information, and characterized by the concentrated and monopolized rights for business decision-making. In addition, the labor-management relations depend on formal contracts, arms-length relations and heavy reliance on written procedures. The main mechanism for coordinating the conflicting in-

terests (or opinion conflicts) depends on formal communications (collective bargaining instead of management-labor joint councils found in Japanese firms), and administrative rules and regulations, which are officially decided through the “interest bargaining”, in contrast to the Japanese style of horizontal coordination mechanism.

In terms of the value-added sharing, the goal of American firms is to maximize the shareholder’s value, because shareholders who are unhappy with corporate performance can easily divest their shareholdings. Even though employees also have substantial firm-specific investments which put them at risk and give them an incentive to monitor the corporate performance, they lack the protection of portfolio diversification that shareholders have (Jacoby, 2005). Therefore American business managers develop incentives to ensure the shareholders’ interests.

The main feature of the sharing mechanism in Korean *chaebol* companies is similar to that of the American corporations. The *chaebol* companies emphasize efficiency, which is achieved through fine specialization and sharp role demarcation (cited in Aoki’s explanation of the American firm, 1988), and minimize the need for communication between employees and managers by monopolizing the entire business information into the hands of a small core group.

In the business operation, the monopoly of information is coupled with the top-down coordination of decision-making and the exclusion of employees and other stakeholders from the process. The central planning office, such as a ‘department of planning and adjustment’ or a ‘chairman’s office’, makes the ‘all-inclusive optimal plans’ ranging over

TABLE 5-2 COMPARATIVE ANALYSIS OF SHARING MECHANISM IN US, JAPAN AND KOREA

Countries	Sharing Mechanism			Conceptions of a business firm
	Information	Value-added	Decision-making	
United States	Vertical flow	Shareholders	Exclusion	Unilateral
	Separation Monopoly			
Japan	Horizontal flow	Employees	Participation	Multilateral
	Decentralization Coordination			
Korea	Top-down flow	Owners as a dominant shareholder	Exclusion	Unilateral
	Separation Monopoly			

the whole area of business activities (for example, from production, and investment to marketing, and HR/IR policies) on the basis of the business prediction through the monopolized information. The plan is then broken down successively into detailed accommodating plans for the final application on the front line.

Even though the labor-management joint council has been created to consult the industrial and labor relations issues, it doesn't carry out an appropriate function even as an 'operational decision-making' body, let alone a 'strategic business decision-making' body.

The joint council agendas are dominated by wages and working conditions, workers' welfare, and safety and health. That is to say, originally, it was built to strengthen the voice of workers in business matters and to promote trust and cooperation between employees and employers, but most discussions have focused on employees' grievances (Nam, 2003: 51). Unlike at their Japanese counterparts, 'solidaristic exchange' of productivity and employment security is rarely given a priority in the agenda of Korean 'councils'.

In sharing of the value-added, the family owners of Korean *chaebol*

TABLE 5-3 KOREAN LABOR-MANAGEMENT COUNCILS: THE MOST IMPORTANT AGENDA IN 1999

	Total	Unionized firms	Non-unionized firm
Managerial issues	6.9	7.5	6.7
Issues related to production	5.0	1.1	6.7
Personnel issues	10.1	11.8	9.3
Social issues	16.7	24.7	13.3
Wages and working conditions	57.9	51.6	60.4
Others	3.5	3.2	3.6

Source: Huh (2000), Nam (2003)

TABLE 5-4 MOST IMPORTANT SUB-AGENDA (EACH FIRM CHOOSING THREE AGENDA)

Wage level	64.5
Allowances, bonuses and severance pay	33.0
Worker welfare programs	27.7
Safety, health and improvement in working conditions	18.2
Working hours and breaks	15.1
Dealing with worker grievance	13.2
Payment methods, structure, etc. of wages	11.6
Personnel policy	11.0

Source: Huh (2000), Nam (2003)

firms have had absolute control of utilization and distribution of the outcome of corporate performance. There is no effective corporate governance mechanism that monitors the sharing process and protects the interests of stakeholders. Even though employees organize their unions, and negotiate the wage as the primary mechanism of sharing the value-added, all major decisions about the sharing, even employees' wages, have been monopolized in the hands of the family owner's group. The Korean system lacks the institutional mechanism promoting fair distribution of the corporate value-added even to shareholders, let alone to employees, because all related major decisions made by the owner-manager families are supported by the state government.

Despite the absence of appropriate data, Table 5-5 exhibits one aspect of the sharing mechanism of the value-added between corporate insiders. Among the all performance outcomes, managerial shares are substantially high, and by contrast, production workers' shares are the lowest.

TABLE 5-5 DISTRIBUTION OF CORPORATE PERFORMANCE: 2000

	Merit pay	Team incentives	Gain-sharing	Profit-sharing	ESOP	Stock option
Managerial	83.3	54.8	81.0	67.1	93.4	90.5
R&D/Technical	45.5	46.4	50.4	49.4	68.4	47.6
Clerical	59.6	51.2	84.3	71.2	93.4	71.4
Service/Sales	37.8	60.7	56.2	58.9	60.5	57.1
Production/Unskilled	11.5	9.6	24.0	28.8	14.5	0.0

Park & Noh (2001)

2.2.3 Market institution: coordination mechanism of corporate finance

The last factor in differentiating one corporate system from another is the market institution. According to the school of *varieties of capitalism*, "in liberal market economies, firms coordinate their activities primarily via hierarchies and competitive market arrangement". Market relationships are characterized by the arm's-length exchange of goods or services in a context of competition and formal contracting. In response to the price signals generated by such markets, the actors adjust their willingness to supply and demand goods or services, often on the basis of the marginal calculations stressed by neoclassical economics. In many

respects, market institutions provide a highly effective means for coordinating the endeavors of economic actors (Hall & Soskice, 2001: 8).

In coordinated market economies, firms depend more heavily on non-market relationships to coordinate their endeavors with other actors and to construct their core competencies. These non-market modes of coordination generally entail more extensive relational or incomplete contracting, network monitoring based on the exchange of private information inside networks, and more reliance on collaborative, as opposed to competitive, relationships to build the competencies of the firm. In contrast to liberal market economies, where the equilibrium outcomes of firm behavior are usually given by demand and supply conditions in competitive markets, the equilibria on which firms coordinate in coordinated market economies are more often the result of strategic interaction among firms and other actors (Hall & Soskice, 2001: 8).

While the business firms of Japan and Korea are embedded in a coordinated market system, American firms are placed in a liberal market structure. Even though Japan and Korea have 'coordinated' markets in common, the operational mechanism of each market is totally different: The Japanese market is characterized by *discretionary coordination*, whereas Korean market has been established in *repressive (authoritarian) coordination*.

After the Japanese *zaibatsu* companies were dissolved by the US occupation authority in 1945, they reconstituted themselves to a significant degree, even though the managerial right based on ownership transferred to professional inside managers. New coalitions of firms emerged, and were organized around particular banks or large manufacturing companies. In consequence, after World War II, large amounts of Japanese industrial capital came to be mobilized through what is called *finance groups*. As a result, Japanese large firms were linked together through interlocking reciprocal share-ownership: that is to say, they partly own each other (*keiretsu*).

Within each "enterprise group (*keiretsu*)" companies do not face each other as isolated market entities, but as component elements of a coherent network of capitalist enterprises. Member companies of the corporate group are linked together through 'reciprocal capital, com-

mercial and personal relations'. They engage in preferential trading, joint ventures, and technical integration; and their aligned participations are reinforced by preferential loans supplied by the group bank (main bank) and by funds from the trust and insurance companies within the group" (Scott, 1997: 193; Coates, 2000: 179).

These industrial networks provide "an effective mechanism for diffusing and diminishing risk in Japan's industrial system' acting as 'a kind of keiretsu-based insurance system' for private sector 'risk diffusion and crisis management" (Okimoto, 1989: 139), which has no liberal capitalist equivalent; and in the process they help to invest the financial capital in corporate long-term value without considering of short-term returns utilized in liberal market economies.

On the other hand, the *chaebols*, the Korean version of family-owned conglomerates, are created in the process of the state-led heavy and chemical industrialization during the 1970s. The state designated strategic industries and picked up companies or business groups to undertake the task of building these new industries while providing them with subsidies and protections (Shin & Chang, 2003: 13). In some ways, the *chaebols* are similar to Japanese *keiretsus*, but they are starkly different from each other in their ownership structure. Japanese *keiretsus* are largely owned by other member companies (interlocking) or special banks (main bank) and managed by professional managers, whereas Korean *chaebols* are characterized by family ownership which is kept up by 'interlocking' and managerial control by the owner-managers.

In Korean *chaebols*, the bank was an essential mechanism providing the financial capital to the industrial firms during the industrialization. As mentioned above, the government used policy loans through the banks as a means of promoting targeted industries. Commercial banks kept providing the *chaebols* with *patient money* under the guidance of industrial policy. Interest rates for these loans were substantially lower than the market and inflation rates, creating opportunities for eligible firms to make substantial profits. In addition, higher dependency on debt financing made it possible for *chaebol* families to control their firms with a relatively small equity of their own (Chung et., 1997: 58-63).

As a result, the *state-banks-chaebol nexus* became the central feature of the Korean economic system (Shin & Chang, 2003). In accordance

with the nexus, the Korean business group developed a sufficient mechanism to increase the amount of capital. These groups increase their capital through *mutual shareholding*, or *circular shareholding* without actually putting down real money. Related to the mutual shareholding mechanism, the business group also functions as a mini capital market for the family firms. Financial resources can be mobilized across member subordinate firms through direct subsidy, corporate lending, and loan guarantees. These distinguishing facets of Korean corporate system made them engage in long-term perspectives and growth orientations (Shin & Chang, 2003).

In contrast to independent individual firms, which normally transact with each other through market mechanisms as American firms do, member firms in a *chaebol* group usually transact with each other through a non-market mechanism, i.e. a hierarchy. Diversification among member firms under centralized coordination was a major characteristic of Korean *chaebol* firms. *Chaebols* pursued their growth strategies through diversification in order to gain status as big businesses, because government favored big businesses as an instrument for the nation's economic development. Since the government supported and protected big businesses from domestic as well as foreign competition, Korean *chaebols* increased their size by means of diversification with little risk (Lee, 1991; Chung et., 1997: 65).

In summary, under the organized market which was strongly coordinated by the authoritarian state, Korean *chaebol* group was able to increase the amount of capital and the firm size through commercial banks. As in Japanese *zaibatsus*, the structure of *chaebol* business groups works as a mini-capital market for their member firms. Financial resources can be mobilized across member firms through direct subsidies, corporate lending, loan guarantees, and so on. Furthermore, the centralized decision-making at the group level may save entrepreneurial resources. These advantages also mean that *chaebol* business groups may be more suitable in sustaining long-term projects which require a long gestation period for learning and creating new technologies (Shin & Chang, 2003: 26-28).

3. Institutional Complementarities

The presence of institutional complementarities reinforces the differences between different market mechanisms. Institutional complementarities are the optimal nexus of constituent factors in a particular structure. Here, three institutional combinations (four actual models) will be evaluated by whether their institutional constituents are complementary to each other or not. Following Aoki (1994), if the presence (or efficiency) of one increases the returns from (or efficiency of) the other, we assume that the institution is complementary.

The main interest of this research is the complementarities between corporate governance mechanism and employment relations. The term *corporate governance structure* refers, in this research context, to the three basic concepts discussed in Chapter 2: *company ownership*, *sharing structure* and *market institution*. More specifically, it is a configuration of institutional sets that deal with the issues of who bears the (legal or actual) property rights of the public corporations, and controls the management decisions of the corporations such as what the best value which the corporations want to maximize is (market value, stakeholders' value or others). Consequently, the corporate governance structure shapes how major stakeholders (shareholder and employees) share the risk and responsibility and the business benefits, and furthermore, whether the sharing is proportional to their investments and risk-taking. In order to find the answers to these questions, I take the five institutional factors: (1) the possibilities and degree of claims by employees for corporate business performance (the sharing of value-added), (2) the concern for business prosperity instead of the maximization of short-term market value, (3) mid and long-term perspectives rather than short-term in business management, (4) the degree of stakeholder value orientations and (5) the existence and substantial roles of insider directors (board members) who are promoted from the ranks of employees.

Employment relations is a set of institutions concerned with the governance of employment and work in a business corporation; it includes employment contracts (employment and discharge), job classification and allocation, work practices and working behavior, personnel management (promotion, performance management, pay and incentives

and skill attainment), and a structure and mechanisms of employee representation. In order to understand and interpret an employment relationship and industrial relations practice, I analyze the operation of current employment relations and evaluate the performance with the following several variables: (1) internal promotion to managerial positions (the existence and the degree), (2) length of employment period (long-term vs. short-term), (3) employee representation (bargaining structure – enterprise unionism or others), (4) wage determination and promotion rules (seniority based vs. merit based), and (5) the type of skills attained (firm-specific or general).

However, the ultimate purpose of this research is not simply to describe the general attributes of employment relations. Instead, I wish to develop a more strategic perspective on the Korean system and thereby work out the complementarities of current employment relations and a corporate governance structure. The most important assumption of this research is that the performance of employment relations and the industrial relations outcome are shaped by their complementary interactions with the company's corporate governance structure.

Now, given the several factors of corporate governance structure and employment relations, I would like to pay a closer attention to the models of capitalism under which the institutional factors in two dimensions (corporate governance and industrial relations) work. Under what circumstances will maximizing the performance of governance factors be consistent with maximizing the functioning of employment relations? If there is no single prevailing global standard for the capitalist model, we should assume that there should be various optimal models of capitalism (*varieties of capitalism*) to fit into the different institutional factors.

I would argue that there are three different models of capitalism, which may be called *the shareholder-property capitalism* (divided into two sub-models: exit model and voice model), *the stakeholder-entity capitalism* and *the owner-property capitalism*.

These models are mainly characterized by organizational structure of a market and the corresponding ownership and managerial control of corporations. The *shareholder property model* of capitalism which is represented by the United States and England, regards shareholders as the

owners of a firm, and managers as their representatives, who are responsible for maximizing shareholder interests in a short-term oriented manner. This model has two sub-types. One is the exit type, in which shareholders dissatisfied with management will promptly divest their shares and dissociate themselves from the firm. The other is the voice type, where shareholders, as the ultimate owners of a firm, remain loyal but actively voice concerns about the management's direction, thereby trying to maximize their own interests (Inagami, 2001: 228)

The *stakeholder entity model* (Japanese firms) of capitalism holds that the primary objective of a business enterprise should be to realize stakeholder interests and pursue business prosperity over the medium to long-term rather than pursuing short-term capital efficiency. The firms in this model are mostly owned by financial and non-financial institutions as silent and stable equity owners. In particular, in this model of capitalism, the employees are regarded as the core part of stakeholders because they have substantial firm-specific investments which put them at risk and give them an incentive to see that the enterprise is efficiently managed (Jacoby, 2005: 37). Generally, in this model, stakeholders display a deep interest in the growth and prosperity of the firm.

**TABLE 5-6 CORPORATE GOVERNANCE AND EMPLOYMENT RELATIONS:
IMPLICATION FOR COMPLEMENTARITIES**

Models of capitalism	Corporate Governance Factors						Industrial Relations Practices				Complmtr's Score
	Laborers' residual claim	Concern for business prosperity	Mid/long-term biz perspectives	Stakeholder Value orientation	Inside Directors from employees	Internal promotion of managem't	Long-term employment	Enterprise Unionism	Seniority Wage	Firm specific skill	
Shareholder property model with exit	-1	-1	-1	-1	-1	-1	-1	0	0	-1	-8
Shareholder property model with voice	-1	0	0	1	-1	-1	-1	0	0	-1	-4
Stakeholder entity model	1	1	1	1	1	1	1	1	1	1	10
Owner property model	-1	1	1	-1	0	0	0	1	1	0	2

-1: negative, 0: negative/positive, 1: positive

The *owner property model* of capitalism, which is typified by the Korean *chaebol* system, regards a firm as the individual owner's or the owner families' property. The owner families have absolute control and power over their firms; there is no effective market or institutional mechanism that protects the interests of multiple stakeholders other than the owner families. Most of the business decision-making is carried out by the owner-managers. Although the model pursues the long-term prosperity of business firms, the objective mainly focuses on the maximization of the primary owners' interest. The owner property structure of Korean *chaebol-capitalism* has no room to accommodate various stakeholders' interests, not even shareholders or employees.

In this research, conceptual evaluation of the issues of complementarities between corporate governance factors and industrial relations practices are worked out through the comparative institutional analysis, specifying the three models of capitalism suggested, and connecting institutional factors of corporate governance and industrial relations to the models.

Regarding factor scoring, all factors suggested as components of corporate governance structure and employment relations are indexed by the range three values of [-1], [0], and [1]. [-1] is intended to reflect the weakness of a particular factor, [1] reflects the strength, and [0] represents neutrality.

The degree of complementarities of institutions is supposed to depend on the *absolute value* of the total sum of every ten factor values within each model. After summing up all ten factor values in each model, if the absolute value of the total amount is higher, it indicates higher complementarities of the model. That is, if the *absolute value* of the total sum of the factor values is closer to 10, we can consider that the complementarities are higher.

The conceptual analysis³ (Table 5-6) implies that the Anglo-American model of capitalism (shareholder property model with exit) displays a high degree (value: -8) of the complementarities associated with the liberal market system, while the Japanese stakeholder entity model embedded in 'a coordinated market' is assumed to enjoy the

3) I am not arguing that the higher complementarities are superior to the lower.

highest level (value: 10) of complementarities. However, the Korean model of owner property capitalism (*chaebol* system), which is supposed to rely on a wholly different coordinated market, displays the lowest complementarities between institutions (value: 2).

The analysis verifies a variety of assumptions of institutional complementarities. For example, first of all, the claim of employees for corporate business performance is more feasible when the stakeholders' interests are protected, and where the financial system provides capital on terms that are not sensitive to current profitability (Aoki, 1994). Fluid labor market with general skill (not-firm-specific skill) relies on a highly developed stock market, short-term business perspectives and shareholder value orientation. A high level of employment protection tends to be associated with large numbers of inside directors promoted from employees on the board and concern for business prosperity in a longer term instead of a short-term perspective.

On the other hand, this conceptual analysis also exhibits the examples of the models which display low institutional complementarities. The typical model of the lower complementarities is the Korean owner-property system. Although seniority does appear to be important in affecting wage rates and promotions, Korean *chaebols* are reluctant to make the sorts of long-term commitments to their workforce (Amsden, 1989; Bae, 1987; Biggart, 1997). Mobility between firms, both enforced and voluntary, has been considerably greater for manual workers, and even some non-manual, than is common in the large-firm sector in Japan. Additionally, leading *chaebol* firms in Korea sometimes poach skilled workers from competitors rather than invest in training programs (Amsden, 1989: 275-87; Janelli, 1993: 139; cited in Whitley, 2000: 145). Even for firms where the turnover rate is low, this is more because the employees are locked into their current employer through high levels of overtime pay than because they feel committed to the firm (Bae, 1987). In short, even the seniority system and long-term employment which are supposed to be complementary to one another have been dysfunctional in Korean *chaebol* firms.

In sum, I contend that in the Korean owner property model, the dissonance of the institutional factors of corporate governance and industrial relations generates systematic conflicts between institutions

representing the lack of complementarities. In the next chapter, I will demonstrate the inefficiency of the industrial relations practices in the Korean owner property model through the analysis of the institutional complementarity structure.

4. Corporate Governance of Korean Chaebol Firms and Employment Relations

4.1 High bargaining leverages in chaebol firms: employers vs. employees

For single-product firms, because of their relatively weaker bargaining power, it is more difficult to sustain long or frequent strikes due to competitive market conditions than for *chaebols* upheld by family firms. In contrast, with their diverse resources, the *chaebols* are well-positioned to endure sustained labor disputes.

Employee bargaining leverage derives from the strike's influence on firm profits. The greater the profits lost by the firm, the more ready the firm will be to give in to labor's demands. During a strike, a firm's profits are affected by the strike's effects on production and sales, by workers' ability to harm production, sales, and profits; and by management's ability to find alternative means to maintain production, sales, and profits. The greater the costs of a strike to the employer, the more likely the strike will succeed. Thus, the employer's relative bargaining power is heavily influenced by their ability to withstand a strike. (Katz & Kochan, 2004: 73-74)

Regarding strikes, Korean *chaebols* have been willing and able to withstand longer and frequent strikes. The relative bargaining power enjoyed by *chaebols* is heavily supported by the family firms' abilities to sustain profits during a strike⁴. For instance, when auto workers in a *chaebol's* family plant go on a strike, the *chaebol* can sustain its profit or compensate its loss by pooling funds from other businesses under its

4) Over a fifth of the sales of all the firms in the largest thirty chaebols would go to other group member firms.

wings such as electronics and engineering. As a result, the *chaebols* have had better bargaining leverage than most single-product firms.

In addition, the *chaebols* are less likely to be concerned about a decline in their stock price when a strike occurs. The structure of *chaebol* business group works as a mini-capital market for member firms. Financial resources can be mobilized across member firms through direct subsidy, corporate lending, loan guarantees, and cross-shareholding. (Shin & Chang, 2003: 27). Therefore, a *chaebol* firm may not necessarily witness a serious decline in stock price during strike activity because the dominant stockholders of the company are their family firms. This helps explain why Korean *chaebol* firms have had so much bargaining power and withstood the long and often acrimonious strikes.

On the other side of the bargaining table—i.e. with respect to employees' bargaining leverage— a union's bargaining leverage is determined by the ability and willingness of the workforce to stay out on strike. The workers' willingness to stay out on strike is heavily influenced by the degree to which alternative sources of income are available to the striking workforce. Another set of factors that influence worker strike leverage beyond the microeconomic environment is the attitude of union members. Worker's feelings of solidarity with other union members influence whether the strike lines will be honored (Katz & Kochan, 2004: 75)

In this respect, Korean workers in *chaebol* firms are more able to withstand strikes, because these firms usually pay employees' wages during the strikes. Korean *chaebol* firms often oppose the wage payment for the strike workers, arguing the principle of *no work, no pay*, but they would choose to pay wages when the workers end the strike. Even though it is an established practice, *pay-for-strikers* is also beneficial to the employers' side because workers are more readily committed to their work when they get the wages.

Regarding the workers' solidarity, Korean workers in a *chaebol* company are more likely to feel solidarity with their union members because they are organized at the enterprise level where they share common daily experiences. At the firm level, workers are very homogeneous, are involved in the common corporate culture, and share daily interests. In addition, those factors often make workers feel cultural or peer pres-

sure to get involved in all workplace events, including strikes. In the end, they provide rational as well as emotional support for participating in strikes.

In brief, from the point of view of a union's bargaining power being determined by alternative sources of income as well as worker solidarity, workers in Korean *chaebol* firms can better afford to stay out on strike than can those in other firms.

The table demonstrates that compared with the other firms, unions of the Big 30 *chaebols* have been much more effective in organizing strikes, and it also means that the Big 30 *chaebols* have been better able to resist the union pressure of strikes.

TABLE 5-7 WORKDAYS LOST DUE TO STRIKES: COMPARATIVE TREND OF BIG 30 CHAEBOLS AND OTHERS

	Big 30 <i>Chaebols</i>	Others	Ratio of Other Strikes
1991	25,379.30	14,443.90	0.57
1992	74,891.90	9,602.10	0.13
1993	103,718.10	22,249.00	0.21
1994	86,899.30	20,661.40	0.24
1995	41,547.10	12,568.90	0.30
1996	40,222.40	16,282.30	0.40
1997	29,505.50	7,809.90	0.26
1998	58,600.60	30,343.30	0.52
1999	14,560.80	7,075.10	0.49
2000	53,847.50	9,650.00	0.18
2001	23,832.50	7,388.40	0.31

Kang, S.J (et. al.) 2005.

4.2 Underdevelopment of the mechanism for coordinating distributional conflicts

Korean firms have not developed their own system of employment relations because the Korean state entrusted the *chaebols* with the work of national industrialization and set up an overarching framework of preferential industrial policy ranging from financing to industrial relations, and from marketing to investment. Therefore, Korean *chaebol* firms didn't need to be concerned about the coordination of the distributional conflicts⁵. That is, the *chaebol* firms didn't create and develop

5) "In the course of export-oriented industrialization, the state played a dominant role in control-

the value-added sharing mechanism which coordinates between the stockholder's share and employees' compensation, between the manager's reward and shareholder's share, and between the employees' compensation and manager's reward.

Corporate finance was widely mobilized from commercial banks that were strictly controlled by the state government, resulting in a very few portions of public shares from the open market. The other important financial resources can be mobilized across member firms of *chaebols* are through crossholding (interlocking). That is, the *chaebol* groups have an internal capital market (ICM).

Under such large proportions of insider ownership of cross-shareholding as well as family ownership, the main concern of *chaebol* firms is to secure their business growth and owner's property increase. They don't need to be motivated by short-term profit to sustain the stock price. This means that they have been free from hostile takeovers

TABLE 5-8 CHANGES IN THE SHARE OF 'INSIDER' OWNERSHIP OF THE CHAEBOLS (%)

	Big 5			Big 30		
	Insider Ownership	Family	Subsidiaries	Insider Ownership	Family	Subsidiaries
1983	NA	NA	NA	57.2	17.2	40.0
1987	60.3	15.6	44.7	56.2	15.8	40.4
1990	49.6	13.3	36.3	45.7	13.8	31.8
1991	51.6	13.2	38.4	47.1	13.9	33.2
1992	51.9	13.3	38.6	46.4	12.9	33.5
1993	49.0	11.8	37.2	43.4	10.3	33.1
1994	47.5	12.5	35.0	42.7	9.6	33.1
1995	47.6	8.6	39.0	43.3	10.6	32.8
1996	47.8	9.4	38.4	44.1	10.3	33.8
1997	45.3	7.6	37.7	43.0	8.5	34.5
1998	47.2	7.0	40.2	44.5	7.9	36.6
1999	53.5	4.6	48.9	50.5	5.4	45.1
2000	46.2	5.0	41.2	43.4	4.5	38.9
2001	46.1	3.0	43.1	45.0	5.6	39.4
2002	46.9	3.9	43.0	44.9	5.1	39.8
2003	47.5	4.5	43.0	47.5	6.5	41.0

Kim, J.B. 2005.

ling labor, both at the political level and at the workshop level. Capitalists depended on the state for both labor control and manpower training and made little effort to develop a mature system of industrial relations. Although the South Korean system of labor control during the industrialization era may be regarded as a form of state corporatism, in actual practice it departed from the pattern found in Europe and Latin America and instead relied heavily on a security-oriented, repressive, and anti-organizational approach to unionism." (Koo, 2000: 44)

and other market discipline. As a consequence of this, major stockholders of Korean *chaebol* firms tend to act as silent shareholders and do not readily become involved in claiming the distribution of *residual profits*. This has allowed Korean *chaebol* companies to be less concerned about distributional affairs.

Furthermore, union influence was also very limited, especially during the period of industrialization. Under the military regime, the mobilization of workers into union organization failed because of the suppression by governments. Even after the massive labor-management confrontation in 1987, the Korean government has often gotten involved in industrial relations of individual firms. That is, industrial relations in *chaebol* firms have been supplemented by various government regulations and interventions.

In this way, chaebol firms have lost the chances to establish and enhance their own management-labor relations. They have not developed the principles and systematic methods of wage distribution to employees, let alone how the business profit should be distributed fairly between the firm, employees, stockholders and customers, in accordance with the respective contributions. In addition, various adjustment costs from corporate restructuring have also been disproportionately shouldered by employees.

TABLE 5-9 RATIO OF WAGE TO VALUE-ADDED (%)

	Wage-Value added ratio (Wage/Value-Added)	
	Big 30 Average	National Average
1987	0.481	0.470
1988	0.464	0.489
1989	0.466	0.512
1990	0.458	0.523
1991	0.474	0.533
1992	0.472	0.539
1993	0.473	0.525
1994	0.467	0.511
1995	0.441	0.476
1996	0.445	0.530
1997	0.509	0.521
1998	0.478	0.457
1999	0.353	0.416
2000	0.415	0.477
2001	0.397	0.515

Kang, S.J (et. al.) 2005.

As we can see in the above table, the ratios of wage to total value-added of the Big 30 *chaebol* firms are lower than those of the national average between 1988 and 1997. These trends in the ratio of employee wages to the value-added are likely associated with the new government policy in industrial relations (henceforth IR). That is, these figures in the table suggest that governments' IR interventions were concentrated on the large *chaebol* firms, and the strategy seemed to be functional, at least regarding their objectives.

Associated with these practices, there is the threshold from which the existing trend moves to the opposite direction after 1998. Empirical statistics suggests that industrial and financial restructuring as well as corporate reform have created a distributional pressure mainly coming from foreign stockholders (mainly, institutional investors) and the resurgent voice of employees' unions.

Before the economic crisis in 1997, the Korean *chaebol* firms could appropriate their business profits without considering shareholders' residual claims because of the strong insider ownership structure. Employees' wages had been the only major share provided by employers. However, the financial crisis created the big question of how the business profit should be fairly distributed to stockholders and employees, even though insider ownership is still dominant in the financial composition. This issue has been mainly raised by foreign institutional investors.

In sum, the profits of Korean *chaebol* firms have hardly kept pace with their dividends or wages. This is because the main objectives of the firms has not been to maximize profits, value of equity or wage income, but to maximize the sales for growth and to increase the owner's property. Therefore, the world's highest and fastest growth rate of Korean *chaebol* firms during the industrialization period have been made possible at the expense of the shares for labor (wage) and external stockholders (dividends).

4.3 Self-sufficient *chaebols*, concentrated decision-making and divergent industrial relations

Korean *chaebol* firms (conglomerate enterprises) have been domi-

nated and controlled by very large family-dictatorial owners (Amsden, 1989; Cumings, 1987; Fields, 1995; Janelli, 1993; Steers et al., 1989; Woo, 1991; Whitley, 2000). Competing fiercely for domination of a variety of industrial sectors and for political support, they have not developed the sort of long-term cooperative relationships with each other as well as important corporate stakeholders, especially employees. Authority within these conglomerates has been highly centralized and concentrated and very 'personal', with formal procedures often being less important than personal relationships. Despite the high level of diversification, especially in the largest *chaebol*, most business activities are quite integrated both vertically and horizontally, with frequent exchanges of managers and coordinated planning of activities through the *department of planning and adjustment* and the *chairman's office* of the conglomerate group (Fields, 1995; Hamilton and Feenstra, 1997; Whitley, 2000).

According to the considerable integration of conglomerates organization (*chaebol*) and highly centralized and concentrated decision-making procedure, strategic decisions of business management such as capital allocation, technology development, and management of human resources as well as industrial relations have to be made and coordinated at the top level of the company group, and successively trickle down into subordinate companies.

In the perspective of horizontal integration, an appropriate example is exhibited in the frequent exchange of workforces among family firms; that is to say, a family company acquires managers, engineers, supervisors and even workers from the other family firms if it is necessary for the business growth or owner property increase. In addition, there exist mutual business interactions among group families: for example, "when they build new automobile factories, they can also bring along their own mechanical engineering and steel businesses. Their construction units can oversee and execute the overall process of building the factories. They can even set up their own commercial banks to raise capital for investment" (Shin & Chang, 2003: 78). The roles of final decision-making and coordination, of course, have to be performed by the top decision-making body of a *chaebol* group (the group planning department or *chairman's office*).

As a result, the self-sufficient *chaebol* structure, reflecting the ability

of resource mobilization and distribution, results in low cooperation with employees and low interdependence with suppliers and customers. Moreover, the *chaebol* firms have been able to increase their working capital by squeezing the stakeholders (minor shareholders and employees) associated with the *chaebols* (Fields, 1995). The *chaebols* have often passed recessionary shocks to employees, small and medium-sized sub-contractors as well as suppliers, customers and even national or local communities. Consequently, in the operation of many Korean *chaebols*, it is not surprising that many of them have gotten into trouble with these important stakeholders. The self-sufficient capability of the *chaebols* gave them the dictatorial dominance in the labor market, the product market and even the financial market, and induced them to abuse their power against the stakeholders. In sum, the relationship between *chaebol* firms and the stakeholders has not been organized by mutual obligations and interdependent transactions, but rather by rent-seeking behavior (opportunism) and short-term perspectives.

From the perspective of the decision-making structure of Korean *chaebols*, industrial relations practices have revolved around centralized control by concentrated authority and aggressive management.

The business policies decided at the top level of *chaebol* groups are simply passed down to the subsidiary companies. In the case of industrial relations, top-down-policies can reduce the necessary cost and endeavors required to build a particular industrial relations strategy of subsidiaries' units, but that *fall-down strategy* tends to overlook the subordinate units' specific concerns and necessary requirements. In short, the hierarchical distance between decision-making body and the unit that implements the decision is too far, especially in cases related to specific labor issues in subordinate units.

As a result, both the managers in the decision-making body and the staff in the IR/HR department of the subsidiaries' units lack the particular capacity to develop their specific IR or HR strategies. Furthermore, in many cases, subordinate firms frequently exchange their managers, directors and front line staff in charge of industrial relations with other subsidiary units, and even pick them out from other departments such as product management, and marketing. That is to say, IR/HR managers or directors in Korean *chaebol* groups are often transferred

TABLE 5-10 NATIONAL SURVEY ON KOREAN CHAEBOLS⁶

1. Profit resources of Korean <i>chaebols</i>	
Wage restraint by employers	17.4
Technology innovation and productivity	31.8
Government protection (tax & finance)	28.4
Market exploitation (monopoly etc.)	12.3
Illegal activities (tax evasion etc.)	10.1
2. Wage determination	
Employer's discretion	46.1
Industrial or occupational pattern	33.2
Government decision	13.8
Collective bargaining	4.3
No idea	2.8
3. <i>Chaebols</i> abuse their power to make a profit	
Yes	64.0
No	19.1
No idea	6.9
4. SMEs' damage resulting from chaebol firms	
Payment delay	20.4
Price competition	20.3
Cut into SMEs' particular market	18.2
Unilateral price increase of materials	9.8
Others	31.3

across subordinate units and have rather complicated roles and responsibilities. Needless to say, these factors put a limitation on building the strategic industrial relations practices focusing on a firm or an occupation and settling the labor issues with lower costs.

To summarize, such industrial relations strategies which have been oriented to the total performance of a *chaebol* group have made industrial relations practices of subordinate units inconsistent, conflicting and underperformed. The HR and IR departments of subsidiary firms continue to carry out relatively narrow tasks without consideration of the strategy in long-term perspective.

4.4 Feudalistic patrimonial domination and dictatorial management

“How can a *servant* know about corporate finance? Only I, the *owner*, have the knowledge of the details” (Chung, Tae-soo, the chairman and the owner of the bankrupt Hanbo group, 1997). The above response,

6) Surveyed by Seoul Chamber of Commerce and Industry (1987), Korean Gallup (1989), Korea Federation of Small and Medium Business (1989); cited in Cho Dong-sung (1991).

which Chung, Tae-soo gave at a National Assembly hearing investigating a snowballing financial scandal, represents the typical perception of Korean *chaebol* owners of their employees. They usually think of their employees as servants, and consider the employer-employee relation as that of a feudalistic landlord-servant relation.

The organization which draws our interest, here, is not the bureaucracy, which is a typical model of rational domination which institutionalizes the duty of obeisance to official rules or abstract norms and impersonal regulations, but *patrimonial domination* as a type of traditional dominance which is based on individual authority or personal inferior-superior relationships and conventional norms.

In a bureaucratic corporate organization, authority is legitimated by a mutual belief in the correctness of the process by which administrative rules are enacted. In addition, the loyalty of insiders in the organization is oriented to an impersonal order, to a superior position, not to the specific person who holds it. However, patrimonial administration, which is typical in Korean *chaebol* companies, is very personal, subjective and traditional. Therefore, employees as well as the highly ranked business technocrats maintain their loyalty to the corporate owners (the person), not the company (the institution) in which they are employed. Therefore, the managerial model of Korean *chaebol* organizations can be characterized as the *feudalistic patrimonial domination*⁷.

The *patrimonial administration* is closely associated with the ownership structure of Korean *chaebol* companies. The owners of *chaebol* groups have shared their corporate stocks with family members (especially the owner's successor), and distributed most of the leading positions of the corporate businesses (the core parts of corporate decision-making) to their families. In addition to the ownership and business management by the family group, the important operational posts are also held by the owner's relatives or trusted colleagues from the same

7) "The structure of feudal relationships can be contrasted with the wide realm of discretion and the related instability of power positions under pure patrimonialism. Occidental feudalism (*Lebensfeudalität*) is a marginal case of *patrimonialism* that tends towards stereotyped and fixed relationships between *lord and vassal*. As the household with its patriarchal domestic communism evolves, in the age of the capitalist bourgeoisie, into the associated enterprise based on contract and specified individual rights, so the large patrimonial estate leads to the equally contractual allegiance of the feudatory relationship in the age of knightly militarism" (Max Weber, 1968, *Economy and Society*, New York: Bedminster Press, p.1070.)

region or high school. Therefore, the Korean *chaebol* as owner's property can be defined as a set of firms which is owned by a family owner and managed by a very limited group controlled by the owner (*feudalism*). Under the ownership structure, the *chaebol* groups usually organize themselves hierarchically and rely on patrimonial mechanism to maintain control. In this respect, Korean *chaebols* are quite different from the business conglomerates in other countries, which are based on modern bureaucratic management structure.

Finally, the concentrated ownership and the patrimonial governance of *chaebol* owners have transformed the employment relationship and industrial relation practices into *patrimonial authority relations*⁸ (that is, personal relationships based on a superior-inferior nexus) based on a *property-governance-nexus*. Those characteristics have sometimes been accompanied by a paternalistic ideology and authoritarian labor management relationship.

The structural characteristics of patrimonial administration have made the social distance between the managerial group (management staff) and employee shorter, because the system depends on more personal relations and human interactions than a bureaucratic mechanism based on institutional and official processes, and it encourages close supervision of labor by the management. Thus, the patrimonial administration authority permits substantial discretion to lower manager groups or frontline supervisor groups in performing the industrial relations' initiatives. In the patrimonial administration, the significant decision-making of employment relationships and its implementation and the responsibilities are determined more by managers' personal discretions⁹. It increases the possibility of instable and conflictual industrial relations practices and labor relations. As a result, the patrimonial business management by the owner families and their managerial subordinates has been the fundamental cause of the disputative characteristics of Korean labor relations.

8) The patrimonial managers in Korean *chaebols* permit substantial discretion to managerial or supervisory groups in performing industrial relations' initiatives. In association with the importance of managerial authority in the Korean *chaebols*, the significant decision-making of employment relations and its implementation and the responsibilities have been determined more by managerial discretion than by formal rule or bureaucratic process

9) According Max Weber, discretion is a necessary component of patrimonialism.

TABLE 5-11 FAMILY OWNERSHIP & MANAGEMENT STRUCTURE OF TOP CHAEBOL GROUPS, 1998-2003

Samsung	S-Ever	S-Lins	S-Elc	S-Co	S-Sdi	Jeil	
Lee KH (owner)	OM	O	OM	OM	M	M	
Lee JY (1st son, successor)	O		OM				
Hong RH (owner's wife)			O				
Lee BJ (daughter)	O						
Lee SH (daughter)	O						
Lee YH (daughter)	O						
LG	LG-Cem	LG-CI	LG-Elc	LG-EI	LG-Co	LG-Cons	LG-Oil
Koo BM (owner)	OM	OM	OM	OM	OM		M
Koo BJ (family No. 1)				M			
Koo JH (family No. 2)			OM				
Koo JH (family No. 3)					OM		
Huh CS (owner)	OM	OM	OM	M	OM	OM	M
Huh DS (family No. 1)	OM						M
Huh MS (family No. 2)						OM	
Huh JS (family No. 3)						O	M
SK	SK	SK-Ntws	SK-telcom	SK-Cons			
Choi TW (owner)	OM	OM	OM	M			
Choi JW (family No. 1)	O		M				
Choi CW (family No. 2)		OM		M			
Pyo MS (family No. 3)			M				
Choi YW (family No. 4)		O					
Choi SW (family No. 5)	O	O					

Kim, D.U (et. al.) 2005., O: Family ownership, M: management

5. Conclusion

The corporate system in Korea is considered to have a fairly different organizational structure from the firms in other countries. It is *chaebol* system, which is characterized by the monopolization of property rights and managerial control by the owner and his family members. This study analyzes the characteristics of Korean business corporations by making comparisons with Japanese firms and US firms in terms of three concepts: *company ownership*, *sharing mechanism*, and *market institution*.

As a result, I was able to typologize the Korean *chaebol* company is an owner-sovereign-organization with a monolithic governance structure imbedded in authoritarian coordinated market. However, this property of Korean *chaebol* firms appears to have very low complementarities with institutional factors of corporate governance and industrial relations in Korea. This study argues that the low institutional complementarities are the fundamental root of mutual antagonism between employers and employees, inconsistent industrial relations practices and

a confrontational labor management relationship in Korea.

The complementary mechanism includes four institutionally dissonant combinations: First of all, as derived from the organizational structure of Korean *chaebol* companies, the bargaining leverage of employer and employee in Korean *chaebol* firms is relatively higher than that of single-product firms in Korea or in any other countries. It makes the sustained and confrontational L-M relationships more likely in Korea. Second, Korean *chaebol* firms did not develop their own mechanism for coordinating distributional conflicts between stakeholders¹⁰ and owner-managers, because a state authority managed the relations by setting up an overarching framework of industrial policies. Therefore, both employee and employer did not even have the opportunity to bargain and adjust their interests through mutual agreements. Third, as a problem of organizational decision-making structure, the operational distance between the decision-making body and the unit implements the decision is too far. As a result, both the managers in decision-making body and the staff in IR/HR department of subsidiaries lack the necessary capacity to develop their specific IR or HR strategy. Fourth, Korean *chaebol* owners consider employees as *servants* based on a particular property right conception as an owner-manager (*feudalistic patrimonial domination*). Thus, they usually think of industrial relations issues as a property right issue. It creates mutual antagonism between the two sides of labor relations in Korea.

Furthermore, to evaluate the industrial relations performance in Korea, it is necessary to examine the total institutional complementarities related to corporate governance, employment relationships, industrial relations practices, HR institutions, and economic institutions.

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Chapter 6

The Growth of Nonstandard Employment, Changing Labor Market Structure and Industrial Relations

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1. Introduction

This study aims to explain one of the most prominent changes of employment relations in Korea since the 1997 Asian economic crisis: the dramatic increase of nonstandard workforce. Although nonstandard employment had existed before the crisis, it was not until the economic crisis and thereafter that nonstandard workers have become the majority of wage earners. In fact, the proportion of employees involved with various types of nonstandard work arrangements reached 50 percent by the year 2000 and the number has not decreased since then (see appendix; NSO, 2000~2004). Seldom does one witness this explosive growth of nonstandard workforce in such a short period of time in other advanced economies. Such increase of nonstandard employment is particularly notable in the large firm sector. According to Korean Labor Institute (KLI)'s 2004 workplace survey, 62 percent of large firms with more than 500 employees use nonstandard workers whereas 39 percent of smaller firms employ such workforce. This increase has often been accompanied by the replacement of a significant portion of regular jobs across the large firms. In the banking industry, for example, 37,639 regular employees were discharged between 1997 and 2000, while 9,475

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nonstandard employees were being hired at the same period of time.

Given the fact, our primary objectives are two-fold: a) to explain the reasons for such dramatic increase in nonstandard workforce in the post-crisis Korean large firm labor market, and b) to examine the labor market outcomes as a result of the increase in nonstandard employment. In order to explore these two questions, we particularly select two industries, the banking and automobile industries mainly because they serve as the pattern setters and benchmarks in service and manufacturing sectors, respectively. These cases also allow us to examine whether or not there are sectoral differences in employer motivations for using nonstandard employment, which leads us to investigate the question of how the distinctive industrial context impact employer decision on flexible staffing practices.

In this study, we view that the diffusion of nonstandard employment is not merely employers' spontaneous and ad-hoc reaction to their firms' financial hardship in the middle of sweeping national and regional economic crisis. Rather it reflects systemic changes of both internal labor markets and labor relations in the large firm sector. This argument may become clearer when one finds that nonstandard work arrangements have continued to grow even after the financial situation started to stabilize since around 2000.

Built upon this approach, we hypothesize that employers' primary objectives of increasing nonstandard employment can differ across two selected industries as their motivations were first and foremost driven by industry-specific institutional setting to which they attempted to bring systemic changes (Hypothesis 1). Although labor cost saving and manning flexibility were both given significant weight in their considerations, employers in the large automobile manufacturing firms aimed in the first place at curbing union regulation set forth by post 1987 labor regime, whereas employers in the banking industry were primarily concerned about the costly internal labor market. Hence, although employers had common objectives of increasing nonstandard employment and creating segmented labor market at the firm-level, their primary motivations differed according to the institutional conditions of each industry that posed different sets of constraints and forged different priorities and targets for employers.

The use of nonstandard employment can also reflect the differences in the path dependent strategies of actors in each industry – as we find different types of nonstandard employment – onsite subcontract employment in the auto industry and direct-hire temps in the banking industry- that are linked to industrial practices resulting from employers' past strategies.

Yet, despite these divergences, the outcomes pointed to broadly similar direction towards labor market segmentation that created larger second tier labor market within the primary firms. In both cases, albeit divergent institutional constraints and priorities, employers had common aims to create a segmented labor market in order to reshuffle previous burdensome employment relationship. Then the central question becomes: how did the difference in the primary motivation of employers eventually resulted in the convergence of outcomes? The answer lies in the similar responses of regular workers' unions. Thus, we hypothesize that the presence of similar negotiation process between the core organized labor and employers in large firms: The regular workers' unions in both industries gave a tacit consent to the increase of nonstandard employment as a trade-off against stronger employment protection of the regular workers (Hypothesis 2).

As we will evidence in the following sections, although the specific shapes and patterns of segmentation varied across two industries, they both resulted in segmented labor markets that have been constructed along solid division between core regular workers and contingent workers. Thus we hypothesize that the similar union-management interaction had common result of widening the gap between core and nonstandard workers by drawing firmer boundary between core and contingent workers (Hypothesis 3). To examine these 3 hypotheses, our research addresses three major sets of questions as follows:

1. Why have large firms with greater solvency increased the use of nonstandard work arrangements to an extreme? In other words, what are the major institutional constraints that triggered large firms to augment nonstandard employment among other restructuring options? In employers' perception, what were the strategic advantages of nonstandard employment? Did the institutional condition and employers' pri-

mary restructuring goals differ in the selected industries?

2. What were the common union responses to the growth of non-standard employment? How could large firms hire a great fraction of nonstandard employment despite the great extent of union presence in the firms? And how nonstandard workers themselves responded to the firm strategies?

3. What are the labor market outcomes resulting from the increase in nonstandard employment? What are the particular patterns and shapes of labor market segmentation?

We plan to organize this chapter allocating each of these three questions to a separate section. But before we proceed to discussing the questions, we will first provide basic outlines of our approach drawn upon the theoretical insights of past literatures.

2. The Outlines of our Approach

In this section, we will try to examine various literatures that tried to explain the determinants of the use of nonstandard employment and the link between employer objectives and the outcomes of nonstandard work arrangements. In doing this, we will also provide our own analytical approach.

Students of labor market segmentation have often emphasized the dualism between the primary and secondary firms and focused their analysis on the stark differences between the two labor markets (Doeringer and Piore, 1971).¹ In their understanding, the primary firms have greater solvency to provide higher wages, promotion ladders and job security whereas the secondary firms lack the economic ability to offer such conditions. Thus, they derived the *raison d'être* of secondary labor market either from the weak economic capacity of employers or from the demographic profile and attitudinal characteristics of workers that

1) By definition, the primary market has such characteristics as high wages, good working conditions, employment stability, structured career ladders called internal labor markets (ILM) whereas jobs in the secondary, in contrast, are characterized by low wages and fringe benefits, poor working conditions, high labor turnover, little chance of advancement (Doeringer and Piore: 1971: 167).

have more propensity for job instability.

Yet, the theory is weak in explaining the growth of secondary employment in the primary firms. As recent trends in South Korea shows, core large firms are often major drivers of 'nonstandardization' of labor market and create "substantial numbers of employees who labor under secondary subsystem (Osterman, 1987: 52)" within the primary firms. Thus, it becomes crucial to analyze the reason why 'the most profitable, large leading firms attempt to foster 'new sets of hierarchies and labor market segments within the core company itself (Atkinson, 1988)' by increasingly turning to nonstandard employment. Besides, a recent data analysis shows that supply factors are not statistically significant in Korean case (Kim, 2004) and that many employees are constrained to have secondary jobs rather involuntarily even though they endeavor to obtain stable primary jobs. Hence, employees' demographic traits and attitudinal factors cannot adequately explain the increase of nonstandard employment.

In this respect, Osterman's constraint/choice approach can provide a useful analytical tool for explaining the reason behind large firms' increasing reliance on nonstandard employment. In his framework, employers are viewed as strategic actors who choose certain strategy among different alternatives in order to overcome particular sets of constraints. Osterman claimed that firms consider three central goals -cost minimization, predictability and flexibility-in making their choices and that four factors-physical technology, social technology, the characteristics of labor force, and government policies-constrain their choices. In his view, it is the interaction of goals and constraints that leads firms to implement a specific subsystem (Ibid, 64).

We extend Osterman's claim and adopt his constraint/choice framework to explain the changes in employers' strategies. Thus, we consider that employers' use of nonstandard employment was made as a strategic choice in order to overcome what they perceived as constraints and to achieve their specific readjustment goals. But while Osterman overemphasized the technological constraints, we turn our attention to the institutional factors such as the strong union regulation built upon collective bargaining agreements that limits managements' ability to employ and terminate workers according to their need and will (primary constraints perceived by employers in the auto industry), and the exis-

tence of internal labor market that increases firms' payroll bill by incorporating even the employees of the lowest segment in work hierarchies (primary constraints perceived by employers in the banking industry). In our approach, employers' choice for the nonstandard employment comes out of their concrete perception of these institutional constraints. This is particularly true for Korean large firms, because employers in this sector perceived that their business competitiveness has been stymied by rigid labor market and ILM that had been in place since 1987. In this respect, our selected industry cases serve as particular points of interests because large automobile factories and banks have both been considered as the prototypes of post 1987 labor relations system, which are characterized by well-established ILM in the case of banking industry and on the presence of large militant unions with strong bargaining power in the case of auto industry. These 'labor market rigidities' became the primary targets for employers in their employment restructuring efforts. Employers turned to the use of contingent work in order to create systemic changes to the existing corporate labor relations system that constrained them. In sum, our re-appropriation of constraints/choice framework will particularly be useful for explaining employer motivations for the use of nonstandard work. Specifically, we will emphasize that the distinctive institutional constraints of each industry shaped employer priorities in the targets and goals of restructuring.

Yet another important subject of investigation concerns the question of how employers' primary objectives shape specific characteristics of secondary subsystem. Lautsch, for example, distinguished four different types of contingent work systems that diverge according to employers' primary objectives: (a) a separation contingent work system (cost savings are employer's priority and adjustable technology favors the creation of stark boundaries between full time and contingent workers), (b) a two-tier contingent subsystem (cost saving is the primary goal but technology does not allow for clear separation of work groups), (c) an integration contingent subsystem (employer's objective is flexibility and technology hinders task division) and (d) a seasonal contingent subsystem (management objective is flexibility but technology allows management to redesign and simplify work to achieve some cost savings in addition to flexibility) (Lautsch, 2002). Lautsch's framework leads us to

question whether or not employers' primary motivations and objectives differed across our two industry cases, and whether or not this has resulted in diverse contingent subsystems. In this respect, we will evidence that while employers in both industries relied on the contingent work to reduce labor cost, to bypass union power and to obtain relatively unrestricted rights of layoffs, the primary motivations have been slightly different in the two industries. For example, in the banking industry, flexibility objective was subordinate to labor cost savings due to the economically costly ILM institution. On the contrary, in the auto industry, cost savings was secondary to 'external numerical flexibility'² goals, which aimed at bypassing union regulation. Yet, unlike Lautsch, we will not derive a direct causal relationship between employers' primary objectives and the consequent features of contingent subsystems, because we understand that the latter do not solely result from employer objectives, but from strategic interaction among employers, workers and unions. Our approach becomes particularly relevant when we acknowledge that the implementation of new employment practices is not always imposed unilaterally from above, but goes through the process of bargaining with unions. Thus, we will particularly emphasize the impacts of regular workers' unions' responses and the process of union-management negotiation on the specific arrangements and characteristics of subsystems. Lautsch also admits the potential role of power and politics - the responses of regular workers and the union- in shaping work systems. But she fails to systematically incorporate the interactive processes of union-management relationship into her analysis. By contrast, our analysis will shed light on the negotiated interaction between employers and regular workers' unions. As will be shown in the following sections, the latter will be the key explanatory variable for the con-

2) According to Munck, the term 'flexibility' has contradictory and diverse meanings depending on the specific historical/structural context in which it has been constructed. In Korean case, the flexibilization mainly involved 'informal flexibility', which refers to the replacement of standard jobs by temporary jobs, 'labor cost flexibility' which allows wage decrease for non-standard workers and 'external numerical flexibility' aiming at less regulated dismissals of workforce.. Thus, we borrow the concept of 'external numerical flexibility' from Munck. He defines the concept as 'involving basically easier hiring and firing', and distinguishes the latter from 'internal numerical flexibility' that refers to 'flexibility in working time arrangements and loosened restriction on the length of workdays' as well as from 'functional flexibility' that 'entails the variation of work practices to match new technologies' (Munck: 2004: 8).

vergence to tiered subsystem in both auto and banking industries, despite the differences in employers' primary motivations. The experience of massive layoffs in the period of economic crisis constrained regular workers and their unions to take a defensive position to pursue their narrow interests. Thus, the negotiation for nonstandard employment took a form of an exchange between the consent of regular workers to employer initiated nonstandard work arrangement and stronger protection of regular workers' job security. The focus on the dynamics of negotiation between regular workers' union and management will also help us to understand why regular core workers gained enhanced employment status through employers' use of flexible employment. Gramm and Schnell made similar argument in their studies of the use of flexible staffing arrangements in core production jobs (Gramm and Schnell, 2001). Yet, their analysis exclusively focused on employer strategies and paid little attention to the responses of regular workers unions. By contrast, our analysis will underscore the role of management-union interaction in shaping the features of subsystems. In doing this, we expect to find that although specific shapes and patterns of labor market segmentation differ in the auto and banking industries, common dynamics between employer and regular unions' negotiation will result in similar characteristics of tiered subsystems.

3. The Types and Trends of Nonstandard Employment

3.1 The auto industry

The proportion of nonstandard employment has grown rapidly in the auto industry since 1997. The 2002 KLI's Workplace Panel Survey (WPS) shows for example that 33.3% of auto assembly plants increased the proportion of nonstandard workforce, 16.7% maintained the same proportion and 16.7% started to employ nonstandard workers after the crisis (Cho et al.; 337). And according to a report by Korea Metal Workers' Federation, Korea Metal Union and Korean Nonstandard Workers' Center (2004), the major assembly plant X of company A had 797 onsite

TABLE 6-1 THE NUMBER OF ONSITE SUBCONTRACT WORKERS IN ASSEMBLY

PLANT X OF AUTO COMPANY A

Year	1999	2000	2001	2002
Number	797	3,652	5,992	7,800

subcontract workers in June 99, but the number has dramatically increased to 3,652 by May 2000. Thus, the number of nonstandard workers had over fourfold increase in just one year. And it continued to increase the following year to reach 5,992 in 2001, and 7,800 (3,400 in the direct production line and 4,400 in the production assistance departments such as maintenance, packing, shipping, PDI...and in the non-production areas such as building services, janitorial works and canteen services and cookery) in 2002, reaching 27.5% of ratio to the entire plant workforce.

By contrast, the same factory hired only 2 new full-time workers in 1998, 2 in 1999, 99 in 2000, and 490 in 2001 (Korea Metal Workers Federation et al., 2004: 115). Given that the company had financial difficulty in the economic crisis period and had gone through collective layoffs in 1998, what the data tells us is that the company began to employ onsite subcontract workers while holding the recruits of full time workers back when the business boosted up again.³ In a similar way, auto company B had also relied on nonstandard employment to expand labor inputs after it had recovered from the crisis. For example, the assembly plant Z of this company had 150 contract workers in 1999, but the number increased to 877 in 2001. According to the company, the plant dismissed 1200 onsite contract workers in the immediate aftermath of economic crisis, but re-augmented the proportion of these nonstandard employees to 20% of total employees since the production scale has rebounded (Ibid, 144).

As seen in these data, the prevalent type of nonstandard workers in the auto industry and in the manufacturing sector in general is the so-called 'onsite subcontract workers'. Although the subcontract system had been widespread in the auto industry in the past, the recent onsite subcontracting is unique in nature since there exist a substantial number of subcontract workers who work in the contractor manufacturing plant.

3) The recruit of regular workers increased to 490 in 2001, but the number is less than 1/10 of the recruit of contract workers (5,992) in the same year.

These onsite subcontract workers lack any stable employment relationship with both the user company and the subcontractor and have only an indirect employment relationship with the user company. In this subcontracting system, the subcontractor hire workers and send them to the manufacturing firm, yet it is the latter that dictates work rules and supervise the labor process in their facilities. Thus even though the workers are formally employed by the subcontractor, they work in the contractor's plant and are directly controlled by the latter. In many cases, the subcontractor's task is limited to recruiting and dispatching workers on the demand of the contractor and lacks any kind of discretion over the adjustment of workforce. Not only the user company decides the necessary scale of workforce, controls its placement and supervises their conducts, but it also commands the contract termination. In short, the subcontractor's essential function is not different from that of temporary help agencies (THA) in that it is mostly confined to simple business services of labor supply, and the term 'subcontractor' is quite misleading. It is widely acknowledged that this particular type of subcontracting is adopted to avoid legal disputes, since the law prohibited user companies from hiring production line workers from temp agencies (Recently, the Ministry of Labor has ruled out the practices in the auto companies as 'illegal dispatch').

Besides these factors, the insecure and temporary nature of the contracts makes us to categorize these workers into nonstandard workers. The employment contract has a range of 6 months to 1 year contract term, and the workers covered by yearly-based contract are classified as 'regular' employees by the subcontractors. Although employers have tended to renew the contracts and extend the term in practice, they can easily terminate the contracts when they need to adjust the workforce to the fluctuation of market demands. Thus, let alone the temporary workers who have a shorter contract term, those classified as 'regular' workers by the subcontractors actually have the status of fixed term contract workers and can also be easily dismissed.⁴

4) Similar employment rules are applied to most of the subcontractors, and they say that "the contract term of employees will usually be no more than one year, and if the company does not renew the contract, the contract is automatically terminated." Cf. Korea Metal Workers' Federation, Korea Metal Union and Korean Nonstandard Workers' Center's 2004 Report:

Moreover, one of the most important features of onsite subcontract employment is the fact that most subcontract workers do not work in a separate production unit but work side by side with full time regular workers. In this way, company A has 'blended work arrangement' in which subcontract workers work in the same production line with regular workers (Cho et al.; 101). The situation is similar in the company B and C: in company B, subcontract workers take the charge of all the sub-production works such as packing, inspection, and warehouse work, and some of them are also placed in the main line. One of the examples can be found in the final stage of assembly line where both regular and subcontract workers work in the same line for ornament attachment and wrapping. In a similar way, company C has the mixture of regular and subcontract workers in the pre-cleaning and sealing processes of a painting unit (Korea Metal Workers Federation et al., 2004).

Another common feature of work arrangement for subcontract workers across the automobile manufacturing firms is that those workers are replacing the jobs that have traditionally been done by full time regular workers, but that are being repulsed by them. The painting line is a typical example to this, where working conditions are poorer and jobs are more labor-intensive.

Lastly, it is noteworthy that the specific type of contingent work in the auto industry, and in the manufacturing sector in general, is onsite subcontract work. This can be contrasted, for example, to the banking industry where the prevalent type of nonstandard employment is direct-hire temps. Here, we can see how path-dependent industrial characteristics shape the divergent patterns of nonstandard employment. The onsite subcontract arrangements had already been introduced in the auto industry in the late 80s as an attempt to increase flexible work arrangements, but the proportion of onsite subcontract work has been kept down to a modicum of workforce. Thus, although employers failed to increase the use of nonstandard employment until the economic crisis due to strong union opposition, the practice of onsite subcontract work had been embedded in the industry albeit small in number. These indus-

2004: 124 footnote 42).

trial practices linked to past employer strategies resulted in a distinctive type of nonstandard work arrangement –onsite subcontract system- in the auto industry, and in the manufacturing sector in general.

We can draw several implications from this case: First, we can see that the growth of nonstandard work is being driven by demand-side. To adjust to the increase in the production demands in the shifting economic condition, auto manufacturers are more and more relying on the nonstandard subcontract employment while holding new recruits of full time workers back. In this respect, we argue that firms bear the primary responsibility in accelerating the growth of nonstandard employment in the manufacturing sector. Second, the strategy was pursued as a means of providing ‘external numerical flexibility (unrestricted right of expanding and contracting labor inputs in response to demand fluctuations or to other reasons)’ and has resulted in the expansion of secondary employment within the primary firms, creating a large stratum of secondary subsystem within the core firms themselves. Added to the traditional hierarchical structures of subcontracting system in the auto industry sector that drew boundary between primary firms and secondary firms, the new work arrangement brought about yet another form of stratification within the core large factories. Third, the onsite subcontract workers are not just confined to work in temporary, provisional and intermittent jobs, but are also replacing the jobs that had traditionally been done by full time workers. Thus, the secondary employment in the primary manufacturing plant went beyond the sub-production or supplemental jobs and has diffused to the main assembly line. Let alone the spectacular increase in the size of nonstandard workforce, the blended work arrangement of regular jobs with nonstandard jobs within the same assembly line marks another difference from the past. Finally, the industrial differences – the legacy of employer strategy and the embedded patterns of industrial practices resulted in onsite subcontract system in the auto industry as a particular type of nonstandard employment, which can be distinguished from other types of contingent subsystems.

3.2 The banking industry

Although employers’ effort to introduce flexible, less costly, and

performance based systems had already started since the early 1990s, the depth of changes in employment relations triggered by the economic crisis was dreadful.

The banking industry particularly suffered from the crisis as many companies went bankrupt due to enormous debts they carried. Together with other institutional and market changes including increasing foreign investments, mergers, and deregulation, the industry has undergone the most dramatic industrial restructuring process in the economic crisis period. The most central element of the restructuring was the dismantling of the internal labor markets. Rapid increase in nonstandard workforce, particularly the use of direct-hire fixed-term hires has been the most conspicuous phenomenon during this restructuring process. Particularly in the banking industry, the existence of a former gender based dual career and wage structure within firm internal labor market that existed until the early 1990s and a slow growth of direct-hire temps between 1993 (just after the former dual structure) and 1997 led employers to choose the option of re-building secondary subsystem with direct-fixed term workers as the option gave benefits to employers of reducing additional costs attached to the uncertainty of other flexibility options.

As mentioned earlier, direct-hire fixed term employment has been the dominant type of nonstandard employment in the retail banking industry (Ahn et al., 2004). By definition, the direct-hire fixed term employment means that employers hire some workers directly on a contracts basis with a fixed ending point, determined by the completion of a task or date (Kalleberg, 2000; Houseman, 2000). A fixed term contract tends to be short term employment but it is not often the case in the Korean banking industry. Although employers replaced regular jobs with fixed-term hires mostly for frontline customer service positions, they often get the contracts renewed over time as they still desire stable quality services out of long term fixed-term employees. Hence the direct-hire fixed term workers are more likely to be perma-temps (employed for years as “temporary,” without equivalent benefits to what permanent employees obtain).

Because the Contingent Work Supplement of Economically Active Population Survey administered by NSO (National Statistical Office) in 2003 only provides one-digit industrial categories, we unfortunately can

TABLE 6-2 EMPLOYMENT CHANGES BETWEEN 1996~2002

Changes of employment between '96~'02	Bank A	Bank B	Bank C	Bank D	Bank E	Bank F	Bank G	Bank H
% of Changes in regular jobs (% of changes in employment)	-35 (-15)	-21 (-31)	-35 (-31)	-44 (-45)	-48 (-43)	-39 (-35)	-42 (-35)	-29 (-26)
Upper manager	-44.3	-50.5	-35.9	-77.6	-37.0	-59.3	-46.4	-41.8
Upper-middle mngers: 3rd grade	60.6	22.2	118.8	16.8	-27.0	-10.1	-23.1	-14.1
Middle managers: 4th grade	2.4	-6.2	-54.4	-20.9	-5.6	-4.6	-29.2	-13.5
Clerks and Tellers 5 /6th grade	-56.5	-48.9	-39.7	-54.6	-63.1	-49.8	-49.8	-47.6
Temps	260.7	-14.4	38.1	-41.8	-0.9	16.4	70.4	69.9
% of temps in '02	34.2	25.1	21.7	14.3	20.8	21.3	24.9	32.0
Total employees in '02	27,910	5,993	6,875	11,905	5,403	8,456	9,471	4,392

not provide exact information of the distribution of nonstandard workers in order to support our general observation in the retail banking industry. However, there is a clue as to recognizing how predominant the fixed-term hires are. Only the two categories, direct-hire temps (20.6%) and independent contractors (22.7) explain 98% of nonstandard work arrangements in the financial sector including the retail banking industry. Given the fact that independent contractors who are prevalent in the sales occupations in the insurance industry have never been used in the retail banking sector, we can conclude that direct-hire temps is the dominant type of nonstandard employees in the retail banking industry as we portrayed earlier.

It was the period between 1997 and 2000 when most significant changes of employment relations accompanying massive downsizing and increase in temps were carried out. It is notable that the restructuring pressure was harsh enough for the banking unions to finally agree with 32 percent of employment reduction even after their first strike in their union history ever. The results of this first round restructuring significantly decreased both the number of banks and the number of employees. Five banks were ordered to close their business by the Financial Supervisory Committee and five small banks were merged to the larger ones. This means that the number of banks decreased by 30 percent (30 into 20). At the same time, approximately 40,000 fulltime regular em-

employees (out of 130,000 employees) lost their jobs by either getting discharged or accepting voluntary based early retirement package.⁵ In contrast, direct-hire fixed term contract workers (hereinafter direct-hire-temps) increased: 5,400 contingent workers were hired in the same period. The table below showing the changes in the employment structure of most nation-wide retail banks before and after the crisis (between 1996 and 2002) demonstrates how dramatic changes have followed the restructuring process in the industry.

This table also suggests interesting aspects of employment reduction and new employment structure. Overall, the changes were the most dramatic both at the top and the bottom of the hierarchy. However, given the higher percentage of job loss among upper level managers is associated with the small numbers of the positions in their rank, the real full-scale of restructuring was conducted at the bottom level where front-line service employees were concentrated. Fixed-term employees took the positions of vacant bottom level front-line service jobs. For example, in the largest bank, Bank A, increase in temps reached around at 260% during this period. This suggests that employers substituted fixed-term employees for former regular front-line service jobs. In fact, the first row of the table 6-2 showing both the percentage of changes in regular jobs and the percentage of changes in all jobs confirms that employers buffered the shock of the sudden and massive scale downsizing by hiring a great number of fixed-term employees.

In contrast, jobs at the 3rd grade have increased in some firms during this period. This is interesting because the middle level general managers usually became the primary target of a restructuring process in general (Smith, 1993). Some HR managers mentioned that this increase was taking place as many employees at the 4th grade got promoted to the 3rd grade during the period. This implies that tellers at the bottom were massively terminated while the middle managers mostly composed of relatively young male employees continued to experience upward mobility in the internal labor market.

Earlier, we argue that the main objective of the banks to hire fixed-

5) This number also includes the employees who worked for the bankrupted banks. Some of the employees were rehired by other banks by some agreements between the banks.

term workers was to reshuffle their costly internal labor markets. As we will see in greater detail later, the numbers in table 6-2 imply that the crisis did not bring about the decline of internal labor markets per se, yet it brought about the separation of teller jobs that had been incorporated into the internal labor market during the last decade from the core internal labor market.

Another implication from the table above is that the employment restructuring process is closely linked to the gender structure in the organizations as the uneven discharge based on the job rank reflects gender differentiation as well as skill differentiation as evidenced by the fact that fixed-terms hired for the front-line service jobs were almost all women.

The table 6-3 informing the employment structure of one of the largest retail banks in 2003 demonstrates how current job structure of gender segregation is intertwined with the employment status. Female employees are heavily clustered in both the personal customer market segment where relatively lower value added transactions are concentrated, and the back-office facilities including emerging call centers. About 91% of regular female workers work at the personal customer market segment compared to 63% of regular male workers who labor in the same segment (c.f. 71% of total employment is positioned in this segment). In contrast, only 6% of female employees are located in the business customer market segment where usually more long-term relationship banking and higher value added transaction are conducted. In the same vein, an interesting employment composition between the employment status and gender is found in the back office facilities, most of

TABLE 6-3 EMPLOYMENT COMPOSITIONS BY BUSINESS SEGMENTS AND GENDER AT BANK A

	Regular			Fixed-term		
	Male	Female	% of fem	Male	Female	% of fem
Departments at the HQ	1,420	134	8.6	235	386	62.2
Individual customer market segment	8,441	4,549	35.0	670	4,531	87.1
Firm customer market segment	1,616	103	6.0	23	75	76.5
Back-Office (facilities)	1,389	167	10.7	239	2,411	91.0
Total	13,259	4,983	13.0	1,201	7,438	86.1

Source: internal archive of Bank A

which are newly introduced as telecommunications and information technology facilitated transformation of some work activities traditionally carried out by local branches: 91% of temporary workers are female and 90% of regular employees are male. In contrast to the branch organizations where about the same numbers of female regular and temporary workers are working together, gender composition between regular and fixed-term employees is quite disproportionate in the new back office organizations driven primarily by the cost containment objective. This implies that male regular employees take the managerial positions whereas the majority of female employees are in charge of operation, and that employers stop hiring women regular employees for the functions of lower-value added transactions.

Considering information from the two tables together, we suggest that restructuring of internal labor market has been implemented in a way to construct a secondary subsystem of internal labor market (or a two-tier contingent subsystem) by deconstructing an integrated internal labor market that had included women front-line service employees mostly ranked at the lower level hierarchy. And now a large fraction of lower level customer service and sales jobs have been transmitted to the secondary subsystem. Yet, despite the fact that the industry has been heavily unionized, the union presence has not made fundamental changes of internal labor markets as middle managers (equivalent to 3rd and 4th grade) have been core union constituencies (Cho et al., 2003).

It is also noteworthy that banks have attempted to stabilize this secondary subsystem with direct-hire-temps. The evidence is two fold: a) secondary subsystem continues to grow and b) the workers' tenure in the secondary system has been longer than is usually expected for fixed term workers. As we argued earlier, the increase in temps was not an ad-hoc response of employers to the economic turmoil and one of the supportive observations is that the increase in temps has continued even after the firms' financial situations became stabilized. For instance, the nation-wide banks increased the number of female temps by 30%, from 14,324 in December 2002 to 18,460 in June 2003. The trend moved in the opposite direction from the hiring trend of regular employees which increased merely 0.7% during the same period.

Given the fact that the customer service and sales functions involv-

ing some financial security issues are still the indispensable work functions of retail banks, too much flexibility may not be desirable to the employers. This is the reason why the banks use fewer part-timers even in the call centers where the time based flexibility could be much more crucial. Although most banks choose a six-month or one year term contract with the tellers having a temporary employment contract, there are some banks, which have adopted a relatively longer contract term (2 to 3 years) to stabilize direct-hire-temps' employment. As shown in the table 4, the number of direct-hire-temps working less than a year with their employers is fewer than the temps with long term tenure longer than 5 years (18.6% versus 21.3%) in the financial industry. Although workers with 1~2 year tenure still consist of the largest group (25.7%) of direct-hire-temps, it appears that long term employment with more than 3 years is also fairly common in the financial industry (42%), which may stem from the customary employment practice of multiple contract renewals. Considering that the employment duration of direct-hire-temps tends to be longer in the banking industry than other financial industries, the proportion of temps with longer tenure is expected to be higher than the average of the financial industry.⁶

TABLE 6-4 TENURE OF TEMPORARY WORKERS (2003)

Less than a year	1~2 years	2~3 years	3~4 years	4~5 years	5+ years
18.6	25.7	13.5	10.5	10.5	21.3

Source: Contingent Work Supplement of Economically Active Population Survey (NSO, 2003)

4. Major Motivations for the Increase of Nonstandard Employment

KLI's 2004 Workplace Panel Survey data partly supports our ex-

- 6) However, a new trend among banks is to develop (or increase) a scheme of temp-to-perm transition. For example, in 2004, one of the largest banks agreed to add a contract language of temp-to-perm transition to its collective bargaining agreement and took a step for implementing the plan in 2005 although the transition rate was very limited (around 1% of temps were selected). This trend has been slowly gaining momentum among other banks as well. Recently, the industry has witnessed sub-stratified segmentations within this secondary subsystem. However, this trend is not significant enough because the banks have not developed a systematic approach of human resource and personnel management for their temporary employees.

planation of why employers use nonstandard work arrangements. Despite some minor differences, the reasons for employers to use nonstandard work arrangements appear fairly similar across various sectors. The responses to the yes-or-no question of each criterion shown in table 6-5 (the 2nd large column) demonstrate that 'cost containment', 'employment flexibility' and 'easier dismissal' are the most common reasons for nonstandard employment. In particular, higher percentage of large firms than average agrees that they use nonstandard workers because of cost containment (63%) and easier dismissal (75%). This reflects that well-established internal labor market and high level of union regulation in the large firm sector have much stronger motivation for nonstandard employment. Another notable fact is that labor-management disputes had been a weaker influencing factor for driving nonstandard work use. Relatively few employers (8.9%) want to avoid union effects by using nonstandard work. However, as will be evidenced later, employers in large auto assembly plants showed higher response to the category, supporting our argument that the presence of strong militant unions creates stronger motivation to use nonstandard employment.

TABLE 6-5 EMPLOYER MOTIVATIONS FOR USING NONSTANDARD WORK ARRANGEMENTS

	% of Positive Response				Primary Reason (%)		
	All	Large firm	Auto Industry	Banking Industry	All	All Manuf	All Service (financial)
Cost containment	54.6	63.1	64	70	23.2	23.6	23.0(26.8)
No bonus pay	38.0	34.5	40	30	1.5	2	1.6(0.0)
No soc welfare	16.4	12.6	36	-	0.5	0.9	0.2(0.0)
No benefit	25.8	26.3	40	40	0.1	0.0	0.2(0.0)
Employment Flexibility	76.0	73.4	84	70	30.6	34.5	28.2(26.8)
Seasonal/temporal needs	28.8	28.3	36	10	0.9	0.9	9.2(2.4)
Easier dismissal	66.4	74.7	72	80	21.2	18.9	22.7(26.8)
Job simplicity	50.4	54.3	60	30	6.6	4.4	7.9(4.9)
Short term tasks	21.9	19.8	20	10	1.5	2.1	1.1(0.0)
Jobs repulsed by regular wks.	50.9	51.2	52	40	8.6	7.7	9.2(7.3)
Special knowledge /skill	21.6	24.2	12	30	3.2	3.8	2.9(4.9)
Avoid labor disputes	8.9	11.3	40	-	0.5	0.9	0.2(0.0)
N	895	293	25	10	895	339	556 (41)

Source: Workplace Panel Survey, raw data, 2004 (the third round), KLI

4.1 The auto industry

Regarding the key determinant factor for the motivation, our key assumption is that although the growth of nonstandard employment is generally observable across two industries, the primary underlying objective for the implementation of nonstandard work arrangement can be different from one industry to another. Specifically the employers in the auto industry were more concerned about the regulatory mechanism set forth by collective bargaining arrangements with militant unions. Thus, large manufacturing firms in the auto industry aimed at first at curbing union regulation by increasing the proportion of workforce to which employers can exert unrestricted rights of layoffs. This does not mean that labor cost saving was not an important factor in the auto industry: In fact, they were also major drivers for change because employers had to face increased cost constraints as unions in the sector were strong enough to gain higher rate of wage increase through collective bargaining agreement. Thus, the objective of bypassing union regulation meant as much lowering the political risk attached to strong union regulation as reducing economic cost attached to union contracts.

As shown in KLI's 2004 WPS, as regards to the manufacturing sector in general, the highest responses of 'yes' for the use of nonstandard employment were found for 'employment flexibility', 'simple jobs not suitable to regular workers (job simplicity)', and 'cost containment'. By contrast, the big employers of assembly plants in the auto industry chose 'employment flexibility' for the first and foremost reason and 'easier dismissal' for the second reason. And employers in the auto industry had also much higher positive response to 'avoidance of labor disputes' than others. In short, as we have hypothesized, employers in the auto industry were more preoccupied with having greater 'freedom' in employment and dismissal at their will. Moreover, their responses hint us to the chronic problems in the industry linked to a deep-rooted conflictual labor-management relationship. We suggest that this is connected to the existence of strong and militant unionism in the auto industry that has developed since 1987 Great Worker Struggle.

The 1987 labor struggle marked a turning point in the working class movement in South Korea. The semi-skilled workers in large

manufacturing industries—such as auto industry, shipbuilding and heavy industries—ascended to the front line of this movement. The struggle resulted in the union recognition in many large manufacturing plants and in radical transformation in the power relations at the workplace level, giving greater control and voice to unionized workers. Moreover, the workers in large manufacturing plants could gain sharp wage increase along with job security provisions based on their strong bargaining power at the plant level (The strategic importance of the auto industry in the national economy gave the workers all the more greater bargaining power). Hence, we witnessed a development of a particular type of large enterprise unionism—the essence of which lied in ‘militant economism’ as many students of Korean labor movement have pointed to (Kim, 2001; Cho, 2002; Park, 2002; Park, 2004). The unions in the large manufacturing firms relied on labor militancy based on strong rank-and-file mobilization and focused their struggles on pressuring employers to give them greater wage increases and improvement of employment status. The structure of enterprise unionism confined the gains of collective bargaining into the individual firm boundary and seldom did the large enterprise union movement go beyond the factory gates to advocate solidaristic wage policy. This has deepened segmentation between the large firms and small and medium size firms, but workers in the larger firms have succeeded in obtaining relatively strong collective bargaining rights.

We claim that employers targeted at this particular post-1987 labor relations regime in large factories that provided greater union involvement in workplace regulation through collective bargaining agreements. Employers perceived these institutional arrangements as constraints and tried to bypass the regulatory mechanism by increasing onsite subcontract workers’ proportion in their manufacturing plants.

As we have seen in the previous section, the attempt to expand the onsite subcontract employment predates the economic crisis. Yet, manufacturing firms failed to implement the strategy at an incremental pace and the onsite subcontract system has not become a major trend until the early 90s. The opposition of unions to the increase of secondary employment was identified as the primary reason for this (Jung, 1992). This evidences powerful union influence that protected collective

workers' rights and that set restriction on the flexible employment adjustment and on other terms and condition of employment. As we have seen, this has given rise to ILMs in the large manufacturing sector: compared to the pre-1987 period, male blue-collar workers in large manufacturing plants gained greater job security and wage increase and the turnover rate consequently began to decline significantly. Then the question becomes why the post- economic crisis period gave momentum to the increase of onsite subcontract workers despite the fact that militant labor movement has remained quite strong in the large factories. We will examine this paradoxical situation in the next section by analyzing union responses and the dynamics of labor management relationship. But for the moment, we argue that the increase in the onsite subcontract employment in the large auto manufacturing sector was first and foremost driven by employers' intention to bypass union regulation on dismissals and to implement easier firing when market demands slack or labor disputes arise among the contract workers. Thus we can find numerous examples in which employers simply terminate contracts with onsite subcontract workers when they needed to reduce the workforce in order to adjust to the market fluctuations or when onsite subcontract workers were involved in unionization drive or union activism. For example, when auto company A decided to reduce the products of line 51 ("I" auto brand assembly line) by 3 units per hour, they decided to terminate 49 onsite subcontract workers among 95 redundancies in May 2005. The examples can also be found in recent case of auto company C: the company announced that it will terminate the contract with the onsite subcontractor firm X in September 2005, since the firm had the concentration of nonstandard workers union members. Thus, unless the company C will withdraw its decision, 72 onsite subcontract workers will be dismissed. The case illustrates us that the widespread use of non-standard employment in the auto industry aims at getting around collective bargaining regulation and to exert 'the dismissal at will' to a greater extent.

The fact that the onsite subcontract employment can provide relatively unrestricted right to both individual and collective dismissals gave user companies particular incentives to increase this type of employment. This also explains why onsite subcontract employment had become the

dominant type of nonstandard work arrangement in the auto industry in contrast to bank industry where direct hired temps constitute a larger labor segment. In the latter where economic rationale-reducing labor cost through ILM restructuring- predominates, employers prefer direct hired temps as it is more efficient for employers that they directly manage and control the workforce. As opposed to this, in the auto industry where economic rationale is subordinate to political rationale and where the circumvention of union regulation underlies the logics of 'employment flexibility', direct-hire temps increase the political risks for employers. By contrast, onsite subcontract system provides a safeguard to user companies when labor disputes occur between the contractor and onsite contract workers, because the contractor can easily deny its employer status and refuse to bargain with the employees while transferring the employer's responsibility to subcontractors. Thus, in addition to the fact that the practice has already existed in the manufacturing sector to make the option nearer at hands, onsite contract employment was perceived to be politically less risky.

4.2 The banking industry

Earlier, we claimed that employers' main objective of increasing temps in the banking industry was to rebuild a discrete secondary subsystem of ILM in order to increase flexibility on the one hand and to reduce labor cost on the other. As KLI survey partly supports, employers' primary purpose of re-building the subsystem in the banking industry seems to be different from the auto industry. In the auto industry, the employers have been trying to avoid strong labor unions and thus to divide workers into the separated employment systems. However, in the banking industry, union avoidance was not employers' main motivation of rebuilding a secondary ILM subsystem as labor and management have developed a relatively cooperative relationship over the decades. Indeed the unions in- the banking industry have scarcely taken militant industrial action due to the fact that the large part of their members are middle managers,⁷ and that the primary objective of unions has focused

7) Most unions give the eligibility of being a union member up to the managers at the 3rd or 4th

on economic advantages such as increasing compensations and promotion opportunities.

Instead, as the data in the table 6-5 evidences, employers in the banking industry had higher positive responses to 'cost containment (70%)' and to 'easier dismissal (80%)' for explaining the use of nonstandard workers than those in other large firms in general. Hence, in the banking industry, employers' main purpose for expanding the secondary subsystem was the high wage costs and corpulent firm organizations attached to the traditional internal labor market. Managers claimed that they found it hard to respond effectively and swiftly enough to the soaring competition and spanning boundaries of the product market with their costly and standardized internal labor market systems. In specific, these economic and organizational purposes of increasing nonstandard employment are four-fold: a) to reduce absolute numbers of employees and maintain a minimum level of employment on their payroll, which was also recommended by the state authority, financial supervisory commission and International Monetary Fund at the beginning of the economic crisis, b) to save labor costs given the fact that the banking industry is still one of the highest wage sectors in Korea, c) to obtain more employment flexibility in employment adjustment due to high costs of regular employee discharge (i.e. unions' strong resistance against collective discharge and costly negotiation process of downsizing, unfeasibility of individual based severance or displacement, costly early retirement packages, so forth) and d) to implement more flexible and performance driven work organizations to the core internal labor market.

The fourth agenda may require further explanation. This agenda is triggered by the concurrent changes in production market (i.e. intensive market competition, increasing pressure of production enlargement put by boundaryless financial product markets in tandem with deregulations, and rapidly decreasing values of traditional customer services and increasing emphasis on sales). Employers often consider that it might be impossible for the entire organization to move toward a flexible work

level, and most managers at those levels are still union members because to be a member has not been traditionally optional.

organization. They raise two problems: a) it is too costly to obtain consensus from an entire organization in order to implement a performance driven work system; and b) the promotion of the entire employees to be equipped with skill and knowledge to adapt to the industrial environment may hamper the firm from responding spontaneously to increasingly complicated market demands (personal interview). Hence employers cultivate motivations to draw a discrete line of segmentation within a firm and to implement different human resource and work organization systems to the divided segmentations. As a matter of fact, most banks have exerted much effort to implement performance based system for their core subsystem by elaborating evaluation and rewards systems, performance based placement system, job based human resource management, and by dismantling seniority based wage and promotion systems since early 2000. At the same time, they have the motivation to use contingent workers in the secondary subsystem because they seek to buffer their core workforce and give the core a sense of relative stability against the market uncertainties. This can be observed in other case studies. Some authors suggest that contingent staffing practices are a complement to high performance work systems (HPWS) under a core/ periphery employment model (Gramm and Schnell, 2001). Then why have bank employers particularly chosen direct-hire-temp as a dominant type among many other nonstandard employment options for the secondary subsystem? We find that the two approaches would be helpful to answer this question: one is the path dependency point of view⁸. As we discussed earlier, employers' decision to choose a certain employment option among many other possibilities is constrained by institutional embeddedness, associated with their previous experience. This is a result of strategic behavior in order to maximize cost effectiveness with risk aversion and in many cases the behavior is path dependent (Pierson, 2004; Hall and Soskice, 2001).

In the banking industry, employers' intention to reconstruct ILM

8) Path dependence is understood as self-reinforcing processes which are inherently difficult to reverse or as a mechanism of generating branching patterns of historical development because the costs of holding some previously plausible alternative is lower than twisting (Pierson, 2003). In this framework, actors' choice is still important among many possible alternatives. According to this framework, to maximize the use of temps was one of the handy and less costly menus of segmenting the labor market to the employers in the retail banking sector.

subsystem was not to create an entirely new system but an attempt to revitalize a system embedded in the existing organization. In other words, employer strategy of restructuring internal labor market to implement an explicit secondary subsystem has been learned and developed over the decades. Gender dynamics is the core factor to understand this process.

The two-tier internal labor market already existed in the banking industry until the early 1990s. The so-called “Female Banker System” – where women employees are confined to a separate very short career ladder and occupations and had a different wage increase scheme from the male bankers on longer career track – played a role of dividing the line between the two internal labor markets within an organization before the union democratization and women movement took off in the late 1980s (Korean Financial Industry Union, 2000). Virtually no female union officers had existed, and labor unions did not pay much attention to the gender based segmented employment structure back then. However, pressured by internal and external criticism of gender discrimination, the banks started expanding core internal labor markets to women workers and developed a single universal internal labor market in the early 1990s. An institutional factor was stimulating this process. As the Equal Employment Act was enacted in the late 1980s, social coalition between women activist groups and some women workers pressured the employers, government, and existing unions hard to abolish gender discriminative employment practices. As a result, most women employees had been incorporated to the core ILM and had officially the same opportunity for upward mobility and wage increase (Kim, 2004; Cho, 2001; the financial industry union, 2003).

Although tangible gender discrimination seemed to disappear as the female banker system was abolished, gender dynamics persisted throughout the 1990s. As the costly internal labor market practices were diffused to virtually all employees, employers attempted to revive the old segmented system by introducing new alternatives. An attempt to implement a “New Career Development System”, carrying a dual career track – a clerical and managerial track – was an example. Whereas a few younger banks where unions were relatively weak and male young workers were willing to accept the new employment practices succeeded to

implement the new system, many big old banks failed to introduce the system, facing unions and employees' resistance (Korean Financial Industry Union, 2000). In the banks with the new system, obvious gender based segmented labor markets were re-established again.

After failing to introduce the new system, many banks started restraining the size of annual recruitment for frontline service jobs and replaced the vacancies with direct-hire-temps. By the spring of 1997, just before the economic crisis hit the country, direct-hire-temps had increased up to about 4~5 percent of all employees in most major banks. Because this movement was gradually progressed and the growth was not significant enough, labor unions did neither pay attention to this nor warned employers despite concerns of some female unionists (interview, 2004).

The combination of the previous experience of gendered two-tier internal labor market and the use of female only direct-hire-temps seemed to help employers shape their choice of rebuilding a secondary subsystem of internal labor market that is completely filled up by female direct-hire-temps.

The current secondary ILM subsystem is slightly more detached from the core ILM subsystem than the previous version of secondary subsystem upheld by the female banker system, because direct-hire-temps are more precarious in terms of job security and career prospect than before. Yet, the workers are still internally sourced and managed and they usually expect their long-term employment. Then, what are the advantages for employers to maintain this internal system? This can be explained by the fact that although those jobs often involve routinized transactions and highly standardizable work process by advanced technology, they still need a significant extent of tacit knowledge, customer interaction skills, and complex product related knowledge due to broadening product market. Moreover, most bank branches dealing with personal customers have not developed a sophisticated business strategy of customer segmentation and the front-line service workers serve a broad range of customers. Banks seem to retain internal employment policies for direct-hire-temps as they consider that front-line service work contains elements of work processes that are complex, that involve customer transactions that are nuanced or uncertain, and that require a strategy of service quality and customization. This is a reason why banks

do not use yet on-site subcontractors or any tertiary employment relations, often seen in other financial service firms. However, current employers' pervasive use of so called, "perma-temps" is, from a certain perspective, hybrid and contradictory in terms of mixture of external and internal elements of employment relationship, and it thus may not be sustainable in the long-run.

5. Union Responses

In reviewing past studies, we emphasized that our approach does not single out a linear causal relationship focusing on employer strategy alone. Even though it is true that it is the managerial decision, which mostly impacts on the changes in the employment patterns, it goes without saying that unions also play an important role in shaping employment structures throughout its strategic interaction with employers. Thus we argue that the shapes of contingent work systems are not solely determined from above but through the negotiated processes between employers and unions, and that the latter have bearing on the patterns of labor market changes. We also claim that despite the diverse patterns of nonstandard work arrangement, common responses of regular workers' unions resulted in similarly segmented labor market in which the division between core and buffer workers became consolidated.

5.1 The auto industry

We have seen in the previous section that manufacturing firms had little success in their attempt to expand the onsite subcontract employment until the early 90s. The strong union resistance to the expansion had been identified as a major factor for this failure (Jung, Ibid). Yet, it is puzzling to find that the onsite subcontract employment had a sudden surge in less than 5-6 years despite the fact that unions in the sector remained fairly strong and militant.

The fragmented structures of enterprise unionism partly explain these changes in that it disposed large enterprise unionism into self-oriented promotion and protection of their members' rights rather than

towards the inclusivity of solidaristic demands. But to fully understand the process of transformation, we also need to turn our attention to the context of economic crisis and to the way the latter triggered major changes in labor-management relationship.

In the first place, the economic crisis has put enormous constraints on unions' strategic choices. Not only unions were pressured to concessionary bargaining and had to restrain themselves from industrial action since it would arouse society-wide criticism on the ground that the very action would worsen the economic crisis, but they also had to face massive layoffs. Thus the changes in the economic condition significantly undermined unions' bargaining power. The increasing job insecurity and the threats of layoffs put unions in defensive position and job stability became major concerns for the organized labor. On the other hand, for employers, the economic crisis followed by IMF mandated restructuring process urged them to transpose the rhetoric of 'labor market flexibility' into actual institutional changes at firm level. Specifically this has taken the shape of downsizing the regular full time workforce and increasing the onsite contract employment. We saw that this strategy has been pursued for decades but did not gain much success in the face of union opposition. But, in the context of economic crisis, employers gained greater leverage for implementing the strategy as unions were put in defensive position and began to be preoccupied with job security.

Yet, the increase of nonstandard work arrangement in the auto industry did not solely result from employers' top-down offensive. It also came as a compromise with the regular workers' unions that tried to protect their members' job security and to put some limitations on layoffs. For example, in June 2000, the regular workers' union in auto company A signed on the "Agreement on Job Security" with the company in which unions allowed employers to increase onsite subcontract workers up to 16.9%. In exchange, regular workers' union gained agreements on 'prior information sharing', 'co-determination principle' and 'full guarantee of job security': this included 'no unilateral layoffs on regular workers' and 'job security of existing regular workers' among others (Korea Metal Workers Federation et al.: 110). And other unions in major auto manufacturing firms also tacitly agreed to the increase in nonstandard workforce to a certain level as a trade-off with the enhancement of their

employment protection.

This gave a momentum for employers to increase onsite subcontract employment. In practice, the increase of actual numbers of onsite contract workers surpassed the limit of percentage agreed between employer and union as shown in an example in the table below:

TABLE 6-6 THE RATIO OF ON-SITE CONTRACT WORKERS TO TOTAL PRODUCTION WORKERS IN ASSEMBLY PLANT X OF AUTO COMPANY A⁹

	Onsite contract workers	Total production workers	Ratio
May 2000	3,652	16,572	18.1% Company document
January 2001	5,992	19,219	23.8% 2001 Union Report
November 2002	9,300	24,520	27.5% Union document

Thus, regular workers unions in the large automobile manufacturing firms have often been reproached to concede to nonstandard workers' 'numerical flexibility' in exchange with full time workers' 'numerical rigidity' in their contract agreements with employers (Joo, 2002). The dilemma appears that labor-management collective agreement itself approved the distinction between core and buffer workers by which full time workers took advantage of employment precariousness of non-standard workers to guarantee their own job security. Hence, the negotiation between regular workers' unions and employers resulted in the enhancement of regular workers' job stability at the expense of non-standard workers' volatile employment status. For example, regular workers' union in company A insured full time employment of regular workers until the age of 53 and co-determination rights for the employment adjustment in their 2003 collective agreement: the union's rights to participate in labor-management joint decision council, the mandate for employers to inform and consult with unions about the merger, investment, and plant relocation decision as well as about the changes in production model, in staffing, and in M/H and UPH arrangements...etc.¹⁰

Hence, what we have witnessed is 'employers' experimentation

9) The table is recomposed from its original table: cf. Korea Metal Workers Federation et al. : 2004: 116.

10) cf. Company A's 2003 union contract in Cho et al. p. 82.

with a core-periphery model in which they offer job security to core regular employees and surround that core with a “periphery” of temporary, contract workers who enjoy less protection (Osterman, 1987). Regular workers’ unions by agreeing to the trade off between their job security and the increase of nonstandard workers paradoxically reinforced the core-periphery model. This has introduced the logics of competition among workers and undermined the homogeneity of workers who labor in the same assembly plant as well as the organizational base of unions themselves, creating ‘a crisis of representation’. Hence, the characteristics that had been central to post-1987 internal labor market structure in the large manufacturing plant - intra-firm homogeneity based on income parity and relatively equal terms and condition of employment- became shattered and gave way to core-periphery stratification within large firms. This provided a ground to employers on which they could play boundary drawing strategy when onsite contract workers began to establish their own unions later from 2003. Employers in the sector attempted to dampen the unionization drive by pitting regular workers against nonstandard workers and to foster competition between the core and buffer workers by claiming that nonstandard workers’ unionization will threaten regular workers’ job security.

Yet, the unionization of onsite contract workers in all major automobile manufacturing firms created a new dynamics in labor-management relations (The company A have onsite contract workers unions in all three assembly plants, and the company B and C also have one onsite contract workers’ union in each of them). And this is another divergent factor from the banking industry in terms of union-employer relationship since nonstandard workers’ unionization drive is weaker in the banking industry. This can partly be explained by the tradition of militant labor activism in the auto industry that facilitated the flows of activists into nonstandard union drive at the initial stage and the unionization had a spill-over effect to workers in the same industry. But given the fact that the employment contract of nonstandard workers can easily be dismissed by employers when they refuse to renew the contract or when they terminate the contract with the subcontractor (the underlying reason of which is the concentration of union members in the subcontractor company as we have seen in recent case of auto company C), the

nonstandard workers' associational power has been vulnerable to the employer offensive.

Nevertheless, the unionization of onsite contract workers has constituted itself as the new epicenter of labor unrest in the sector, and drew a lot of public attention because their movement emerged at the heart of large auto manufacturing sector that once had been the forefront of democratic labor movement. By bring up the issues of unfair labor practices and poorer employment protection, those unions could arouse public concern about the widening inequality within large manufacturing factories, and this in turn pressured the existing regular workers unions to include the issues of nonstandard workers wage and working condition into their bargaining agenda in the form of 'proxy' bargaining, in which regular workers' union bargain on behalf of onsite workers' union.

5.2 The banking industry

As discussed in the earlier section, a large proportion of customer service representative jobs were rapidly replaced by direct-hire-temps during the period of economic crisis, and the nonstandard work arrangements for the front-line customer service functions became a norm in the personal banking sector. Moreover, employers use a gender division to reconstruct the secondary subsystem to minimize potential resistance. In fact, the temporary jobs were almost completely held by female employees. The handful of qualified female unemployed who were terminated from one of the banks and who recently received college degree but could not find a decent job due to dramatic shrinkage of recruitment provided a good and stable source of a direct hire temps. (Korea Financial Industry Union, 2003; Cho et al., 2004)

Although a series of restructuring process including massive dismissals and increase in direct-hire-temps was initiated by employers, the process was not unilaterally driven. Thus, although the union influence was fairly limited, major changes have been always negotiated between unions and employers. Moreover, the negotiation process was extended to the national level bargaining table at the National Tripartite Committee as the committee established a special financial subcommittee setting the agenda regarding the issues of restructuring and labor relations in

the financial industry in 1999 (National Tripartite Committee, 1999). Until 2002 when the second round restructuring was carried out and the major merger processes that mostly faced vehement union resistance were completed, the issues of direct-hire-temps were not brought up on the bargaining table as a major agenda either by employers or by unions. By focusing on job security issues and negotiating the clauses related to the range of downsizing and the early retirement packages, unions did not actively raise the issues of gender-biased dismissals. There was an implicit and explicit agreement between employers and unions that the lower level female front-line service employees or middle level supervisors, particularly relatively older ones, could be the primary target for dismissals (based on a personal interview). None of the unions contested to uneven displacement by gender. In one unnamed bank, for example, the union agreed the employer's decision to terminate women employees in the first place and encountered strong criticism later.

In 1999, unions and employers in many banks agreed to set a limit in the use of temps (mostly 20~30 percent of total employees). However, most of unions did not follow through with the agreement both because their members at branches often demanded the increase of temps in their branches due to increasing workload and labor intensity and because unions were not strong enough to monitor the rules or to refuse employers' strong demands for increase in temps. Some exceptional cases show that different union policy can make difference in temp use. Despite demands from their members for increasing temps, a few unions have adhered to the agreement of not exceeding a certain level of temp use and of regulating the range of jobs where temps can be placed. As a result, these banks have now a relatively lower incidence of temp use (Personal interview with unionists).

Until 2002, unions' standpoint on increasing nonstandard work remained ambiguous. They considered the increase in temps inevitable on one hand, but on the other hand, they did not recognize the increasing fraction of temps as their members. Unions' official position was to demand the switch of the status of temps to regular employees, which only had little success due to the lack of enough pressure on employers. Rather, many union officers recognized that direct-hire-temps provided both employment buffer and secure wage levels for regular workers.

After recovering from the crisis, the top priority of union bargaining agenda was wage increase. As a result, regular workers have continuously gained significant wage increase and the wage gap between regular employees and temps got wider (KFIU Annual Report, 2003, 2004).

As mentioned earlier, the local unions in the banking industry do not represent nonstandard workers and some of the bank unions explicitly exclude temps from eligibility of membership. The leadership of the financial industry union has not shifted their strategy into organizing temps yet because they are concerned about the possibility that the inclusion of temps would erode their pursuit of homogeneity, standardization and solidarity among members and about the possibility that the inclusion would constrain the unions in making wage concession for the temps' sake (personal interview).

In late 2003, temporary workers' local union has been launched, which was initiated by financial industry union after a long internal debate of whether local unions should include temps or industrial union should organize temps into separate temps locals (the financial industry union, 2003). Given that most negotiation power and union resources remain in the hands of each local union, the structure of the separate temp local implies that the temp local would still lack the bargaining power and organizational resources. Compared to the auto case, temps' challenge to existing unions and their voluntary efforts of organizing were weaker in the banking industry. Hence, about 200 members from the major banks have been organized in the temporary workers' union so far (the financial industry union, 2004).

Yet, increasing social awareness and criticism of unions' insider policies have led the unions to more actively bring the agenda of temps' working conditions to the collective bargaining table since 2003. As a result, some progress has been achieved. In the collective bargaining agreement in 2004, KFIU and bank employer association agreed a wage increase for temps by 15%. They also agreed to keep the rule regarding the proportion of temps to the regular employees set in 1999 and created a contract language of temp-to-perm system. Although the agreements achieved some improvement, union policy has not been strong enough to challenge the new labor market segmentation as witnessed in local unions' reluctance in including temps into their organizations.

6. The Labor Market Outcomes

6.1 The auto industry

The dramatic increase of onsite contract workers within big manufacturing plants brought about the dissolution of homogeneous working class by creating a large stratum of secondary subsystem within the large firms. The labor market segmentation resulting from this change can be examined from several different angles.

First, this has widened the wage differentials between the regular workers and the nonstandard workers. Despite the fact that recent union contracts promoted a modicum of wage increase for onsite subcontract workers, the rate of wage increase has been disproportional and the wage gap between the core and buffer workers has remained wide as shown in the table below.

Thus, we can see a clear wage gap between two groups of workers: contract workers' average monthly wage is 61.6% of the full time workers with equivalent job tenure, and only 43.9% of the average full time workers' income.

Second, the reshuffling of labor market segmentation between primary and secondary labor market has resulted in more complex stratification than a simple boundary between the two. Not only the recent trend of nonstandard work arrangement had added a large proportion of onsite contract workers laboring under secondary subsystem in the big manufacturing firms, but it also sub-stratified the secondary market within the secondary subsystem of core firms.

Thus, we now have multi-tiered labor market structures in major large auto manufacturing firms: sub-stratification of secondary subsystem in addition to the consolidated segmentation between regular workers and onsite subcontract workers. For example, the auto company A has workers of primary subcontractors and also those of second and third tier subcontractors who work in supplementary sub-production units with simple and routinized tasks such as attaching tags. The jobs had traditionally been done by regular workers before 1998-1999 but they are now transferred to onsite subcontractor workers of second and

TABLE 6-7 THE WAGE GAP BETWEEN FULL TIME WORKERS AND ONSITE SUBCONTRACT WORKERS IN THE COMPANY A¹¹ (MARCH 2004)

	Full-time Workers(average)	Full Time Workers (same length of tenure)	Onsite Contract Workers(avg.)
Length of Job Tenure	14.4	1.93	1.97
Basic Wage	1,262,294	929,989	708,240
Average Monthly Wage (including bonus and extra yearly & monthly allowance)	3,513,714	2,502,676	1,540,787

* full time workers' wage information is based on the their wage received in January 2004.

* onsite contract workers wage information is drawn upon a survey conducted by onsite contract workers union in March 2004.

third tier subcontractors (Lee et al.; 99). This multi-tier structure is well illustrated in the table below.

We mostly examined the condition of workers of category B-1 in the table who are hired as 'regular' workers in the subcontractor firm and who are sent to the core manufacturing plant to work in the same assembly lines with other regular workers. In the table, these workers are in the category of the 'stable indirect employment', but we have seen that their employment status are very volatile as their contract terms are at most 1 year and can easily be terminated to meet the employers' need.

An important fact related to the multi-tiered structures of secondary subsystem is that as we go down the hierarchy, the inequality in wage, benefits and working condition widens. In an interview with a union staff of onsite contract workers' union in company A, we found that the wage gap between onsite contract workers of second and third tiers' and regular workers is far wider and that many of those second and third tier subcontract workers lack 4-major social benefits and get poorer wages. It is also said that the utmost lowest tier of this subsystem is female-concentrated (Personal interview).

In sum, we can conclude that the reshuffling of the boundaries between the core and periphery has created multi-tier labor market in the auto industry. Hence, we claim that the characteristics of post 1987 labor structures have largely been eroded. The relatively strong intra-firm homogeneity has been broken down. The increase in the onsite contract

11) The table is reconstituted from the original one, and the data source is onsite contract workers' union document.

TABLE 6-8 THE TYPES OF EMPLOYMENT RELATIONS IN AUTO COMPANY A

Market division	Employment type	Characteristics
A-1	Stable direct employment	Full time workers of company A
A-2	Flexible direct employment	Direct hired temps of company A
B-1	Stable indirect employment	Onsite contract workers ('regular' employees) of line subcontractor
B-2	Flexible indirect employment	Temporary workers of the subcontractor firm
C-1	Indirect inter-subcontractor employment	Onsite contract workers dispatched to another subcontractor firm
C-2	External indirect employment	Onsite contract workers who are employees of a subcontracted unit of a subcontractor firm

Source: Korea Metal Workers Federation et al., 2004 Report

employment has not only widened the gap in wages and in employment conditions between the regular workers and the subcontract workers, but also within the secondary sub system of a core firm. Thus, while post-1987 internal labor market structure laid the groundwork for homogeneous class formation within the large factories along with lessened income differentials among these workers, the post-1997 expansion of onsite subcontract system significantly re-widened the gap among workers in the same plant unit and brought about the disaggregation of semi-skilled workers in large factories.

It is true that the restructuring process has been increasingly contested by the emergence of contingent workers' union movement. Yet, although the latter has the potential to pressure regular workers' unions to adopt more inclusive and solidaristic approach, regular workers unions used their bargaining power to enhance their own employment status and had been reluctant to protect the onsite subcontract workers' interests. Thus, the behavior of most regular workers' unions leaned towards collusion with employers regarding the flexible staffing arrangements. As in the case of auto company A where regular workers' union agreed with management to terminate 49 onsite subcontract workers to adjust to reduced product units per hour, regular workers' unions often gave consent to collective layoffs of nonstandard workers and used the buffer workers to protect their own employment status. Thus, so far, union-management interaction did not reverse the major trends of labor market segmentation and resulted in a stronger division between the core regular employment system and the contingent secondary subsystem.

6.2 The banking industry

In the previous section, we discussed that one of the main vehicles for employers for using a significant level of temps may be the lower wages and benefits paid to temps. As a result, significant wage differentials became the hallmark of secondary subsystems of internal labor market. While previous studies in other countries showed the inconsistent results of wage differential between regular and temporary workers, a majority found that there was no significant wage differential between the two, *ceteris paribus*. However, this is not the case in Korea. In the banking sector, regular workers have obtained a significant level of wage premiums whereas the direct-hire-temps have received only slightly above market clearing wages. While both direct-hire-temps and regular workers in the banking industry are paid more than their counterparts in other industries, female temps —we just show females' case in the table below because women are the overwhelming majority among direct-hire-temps in the financial sector — are paid only 55 percent of regular workers wage. Since the 55 percent difference does not count any difference of ages, education, skill differences, tenure and so forth, we need to examine closer if there actually are pure wage differences between the two. We will conduct a multivariate analysis to test for the pure wage difference.

The table above compares some basic conditions between temporary female workers and regular employees such as individual characteristics and union representation, and also compares their average wages and the coverage of important social benefits. Again, since we lack the detailed industry information in the Contingent Supplement to Economically Active Population Survey by NSO (2003), we draw the table based on the information of employees working in the financial sector.

Naturally, female direct-hire-temps have worked a shorter period of time with their current employers (3.1 years) than regular employees (8.7 years), yet the tenure of temps in banking industry is relatively longer than the temps in other industries. But the temps are likely to be older than regular female workers, which may indicate that many older female regular workers were terminated during the restructuring period and some of them re-entered the financial sector job market as experienced temps. Their average education level is a bit lower than regular workers (almost high school graduate equivalent). Temps have less hu-

man capital than regular employees in general. However, more conspicuous differences that influence wage differences seem to be present in the institutional and organizational characteristics than in individual workers' qualification. For instance, as shown in the table above, the proportion of temps with union representation is far lower than that of regular employees. It is rather striking to observe that 33.6 percent of temps are working at unionized workplaces but do not have the opportunities to be a union member. While 45.6 percent of the regular employees are unionized, only 2 percent of the temps are union members.

The workers' outcomes differ greatly along the line of employment status, and temps are disadvantageous in both wages and benefit structure to a great extent. The Korean Financial Industry Union recently conducted a survey on temporary employment and their working conditions (KFIU, 2003), and found that temps annually earned 16,460,000 won on average (approximately 15,000 dollars), which is 41.4 percent of average regular employees' annual wages (39,900,000 won). Also, while the percentage of temps who earned less than 18,000,000 won was about 70%, regular employees whose annual wages were less than 25,000,000 won were only 9.7%. In general, other things being equal, the temporary workers' wage level is about 40 percent of the regular employees, which is quite similar to the NSO data shown in Table 6-9 (also see the table 6-10 below¹²). The gap of company-provided benefits is even wider between direct-hire-temps and regular employees than the wage gap. This is important because the company-provided benefits are a crucial welfare source in Korea. At the same time they have been a key source of differentiation between the large firm core labor markets and others. The banks have developed the most generous benefit structure among all Korean firms. Indeed, as Houseman (2001) discussed, savings on benefit costs is regarded as one of the most important factor in em-

12) This table compares the Wage levels between regular employees and temps by their tenure.

	REGULAR			TEMPS	
	annual contract	Monthly pay		annual contract	monthly pay
Less than 3 years	2974.1	246.2	less than 1 year	1413.8	110.6
3~6 years	3191.6	245.1	1~2 years	1556	116
6~9 years	3738.8	275.4	2~3 years	1767.9	117.1
9~12 years	4084.6	331.1	3~4 years	1758.5	127.2
12~15 years	4442.8	296.1	4~5 years	1867.8	130.3
More than 15 yrs	4800	368.3	more than 5 yrs	1838.6	148

TABLE 6-9 WORKER CHARACTERISTICS, UNION COVERAGE, AND WORKERS' OUTCOMES

	Temp_ Female	Regular_ Female	Regular_ Male
Average Tenure	3.1	7.1	10.3
Average Age	34.0	28.8	37.2
Average Schooling Years	12.8	13.7	15.2
% of working in Nonunion workplace	56.4	37.4	28.9
% of working in union without eligibility of membership	33.6	5.6	10.4
% working in union without choosing membership	7.9	11	10.8
% of Union Member	2.0	45.6	49.8
Average Wages paid	126.4	169.2	286.2
% covered by Health Insurance	68.7(96.6)	100	99.2
% covered by Unemployment Insurance	63.2(98.5)	98.6	93.6
% covered by Pension	67.3(98.5)	100	98.9
% covered by Severance Pay scheme	43.9(90.0)	100	99.5

Source: Korea National Statistical Office, Raw data of Contingent Supplement to Economically Active Population Survey, 2003.

ployer decisions for using flexible staffing arrangements. In fact, in the earlier analysis, we showed that around 40% of employers of banks gave a positive answer that they use nonstandard workers because they do not need to pay (much) benefits to such employees (KLI WPS, 2004). The claim that firms, which have developed a better benefit structure, are more likely to use temporary work is applicable to Korean companies (Houseman, 2003). According to a survey conducted by Financial Industry Union, the differences of benefits items seemed to be a more crucial reason for using temps when employers seek the cost containment policy: A part of the list of benefits is as follows and it indeed shows a large difference between temps and regular employees: support for private pension plan (93.9% vs. 16.6%), monthly one day paid leave (84.2% vs. 42.5%), annual bonus (99.3% vs. 19.4%), annual profit sharing (76.8% vs. 20.1%), support for housing loan (94.8% vs. 4.4%), support for education costs for children (94.4% vs. 2.4%), and support for employee's own education costs (86.7% vs. 4.6%). If one considers the amount of support in each item, the differences may be even greater. The results of both wage and benefit differentials support our argument that saving compensation was the major motivation for implementing a secondary subsystem of internal labor market and for filling out the subsystem with temporary workers in the retail banking industry. Moreover, Korean labor laws that do not effectively regulate the abusive employment arrangements and that still lack the strong wage parity regulations

TABLE 6-10 RESULTS OF MULTIVARIATE ANALYSIS ON WAGE LEVELS

Lnwage	Regular		Temps	
	Coef.	T	Coef.	T
Gender	0.18 ***	0.03	0.16 **	0.07
Education	0.03 ***	0.01	-0.01	0.01
Marital status _dummy	0.11 ***	0.03	0.08	0.08
Age2	0.04 ***	0.02	0.04 **	0.02
Age_square	0.00 *	0.00	0.00 ***	0.00
Tenure_year	0.02 ***	0.01	0.05 ***	0.02
Tenure_square	0.00 ***	0.00	0.00	0.00
Occupation Professional	0.14 ***	0.05	0.26	0.15
Occupation Quasi professional	0.08 ***	0.04	0.44 **	0.14
dummies Service	-0.82 ***	0.15	-0.05	0.18
(ref: clerical) Sales	-0.25 ***	0.12	0.09	0.08
Manual/ Marginal	-0.72 ***	0.26	-0.53 ***	0.18
Union	0.17 ***	0.04	0.13 **	0.06
Union_member	-0.03	0.03	0.17	0.12
_constant	3.52	0.25	4.07	0.35
R_square	60.18		37.84	

Source: Korea National Statistical Office, Raw data of Contingent Supplement to Economically Active Population Survey, 2003.

contribute to the employer decision to increase temporary workers.¹³

Lastly, we test a multivariate model to examine if employment status variable has a significant effect on the wage differential between regular employees and direct-hire-temps when other things are controlled. The results are summarized in the table below.

We do not provide the result here, but it may be worth noting that the temporary dummy variable – 1 if a worker is involved with temporary work arrangements – has significantly negative effect on the wage levels after controlling other variables in the full model including both regular and temps. That is, employers are paying temporary workers significantly lower wages even though they are similarly qualified as the regular workers. In addition, the table above interestingly finds that wage determinant mechanism may be slightly different between regular and temporary workers. Whereas all individual and some institutional

13) Recently, as the issue of wage discrimination against nonstandard workers has been often brought up to public, employers have attempted to reorganize workplaces by separating regular workers' tasks from temporary workers' (interview with A bank managers). By doing this, employers attempted to advocate that the wage differentials between the two result from separate work units and tasks. Yet, the separation of work processes and products is not obvious in retail banks.

variables have significant effects on wage levels for regular workers, years of schooling, one of the most crucial human capital variables does not have any significant effect on temps' wage levels. In other words, wages for temporary workers are not significantly associated with workers' education level. Marital status – being married - has some positive effect on regular workers' wages after controlling workers' ages, but not on temporary workers. Probably, some components of family wages are still paid to regular workers but not to temps. Among temporary workers, no significant wage differences exist between the occupational groups – service, sales and clerical workers—which are the major occupational groups of temps in the financial industry altogether. Finally, interestingly enough, the variances that the model explains are different between the regular workers and temps: much more variances of regular workers' wages are explained than temps' and we expect that much less sophisticated human resource practices are applied to temps. This also implies that unobservable organizational characteristics and employer decisions may be more important to temps. In fact, temporary workers' wages are more contingent -- annual contract-based and performance-based so forth-- than regular workers' wages that are still much affected by seniority based internal labor market system. In other words, market mediated contingency seems to increase the uncertainty of temporary workers' wages in the banking industry.

7. Conclusion

In this study, we examined the reasons for the increase of non-standard employment in the large firms in the auto and banking industries. We argued that the primary motivation for the use of nonstandard work differed across the industries: while the large manufacturing firms in auto industry was more constrained by union regulation and attempted to increase the unregulated portion of workers for easier hiring and firing, the employers in the banking industry were primarily concerned about reconstructing the costly internal labor market to pursue cost containment objective.

The types of nonstandard employment also differed. In the auto industry, onsite subcontract employment became predominant, whereas in the banking industry, direct-hire temps were most preferred. The path dependent industrial differences shaped by employers' past strategies explain the divergence in types of nonstandard work arrangements.

Despite the diversity in the employer motivations and in the types of nonstandard employment, we found that similar responses of regular workers' unions to the restructuring process reinforced the within-firm labor market segmentation in both cases. Hence, we witnessed strong demarcation between core employment system and contingent system in both industries. In the end, these processes resulted in aggravated wage inequality in both industries.

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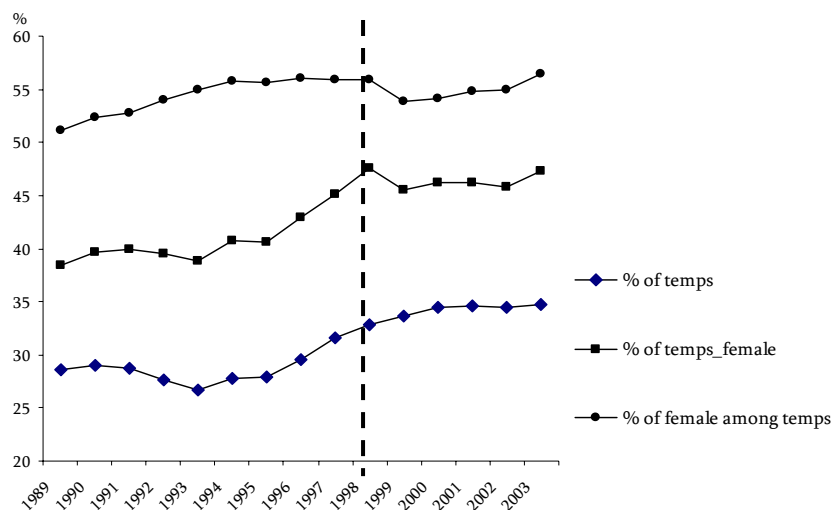
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Appendix

a Statistical Overview of Nonstandard Employment

FIGURE 6-1 PROPORTION OF TEMPORARY EMPLOYEES BETWEEN 1989 AND 2004



Source: Korea National Statistical Office, Raw data of Contingent Supplement to Economically Active Population Survey, 2003.

It looks obvious that temporary employment increased fairly dramatically around the period of economic crisis (See the first line from the bottom). Although the proportion of temporary employees was still high before the crisis, one can see that its share soared during the cri-

sis period and has steadily grown up to 35% since then. As the second line from the top demonstrates, women are more likely to have a temporary job than men, as the share of the temps among women workers grew spectacularly in the period of crisis. Given the fact that the recruitment was extremely repressed and a fad of downsizing was widespread among the Korean firms during the crisis period between 1997 and 1999, the increasing share of temps implies a great deal of replacement of regular jobs with temps. Table 6-1 delineates where each type of nonstandard employment stands. In reference to the survey guideline, we define a nonstandard work as one contracted or expected to last only a limited period of time, for instance part-time and temporary work. An employee working for a temporary help agency (THA) or a contract firm, working as an independent contractor, or working on the on-call basis is considered as a nonstandard worker as well. At a first glance, one can notice that a half of the wage earners were involved with nonstandard work arrangements in 2003 according to the definition above ($100\% - (A-1)$).

As emphasized before, it is noteworthy that nonstandard employment is overrepresented by women in the table 6-1 as well. Overall, women have much higher probability to get involved with nonstandard work arrangements: only 31 percent of female wage earners were working as a full-time permanent worker whereas 56 percent of male wage earners have such employment status. Also, much higher incidence to be a temp, part-timer and independent contractor is found among female than male employees.

A comparison between the types of nonstandard employment leads to some interesting findings. While the direct-hire-temporaries form a largest group of nonstandard employees (Type B [12.9%], most of A-2 [4.1%] and I-1 [20.7%] are equivalent), part timers (C) account for only 3.8 percent of wage earners and temp-agency workers (hereinafter, agency-temps, E) hold less than 1 percent of wage earners. These figures are unique in view of the fact that part-time work arrangements usually commands an overwhelming majority in the nonstandard work arrangements and that temporary work in an upward tendency is attributed to the firms' increasing use of temporary help agencies in other economies (Kalleberg, 2000; Houseman and Osawa (eds.), 2002; Zeyti-

noglu (ed.), 2002). In other words, temporary work in Europe and US has generally grown less than part-time work and plays a lesser role in the overall labor market (Kalleberg, 2000). We suspect that institutional constraints and employers' strategies may explain this uniqueness.

TABLE 6-1 THE INCIDENCE OF VARIOUS TYPES OF NONSTANDARD WORK BY GENDER

	TOTAL	Male	Female
A. Workers with Non-fixed (or No Specif) Contract terms	49.3	58.8	36.2
A-1. Expect Permanent emp with their current employer	45.2	55.8	30.5
A-2. Expect to be terminated after a limited period of time	4.1	3.0	5.7
B. Workers with Fixed Term Contracts	12.9	12.9	12.9
1. less than a Month	4.7	5.3	3.9
2. 1~11months	3.4	2.7	4.4
3. One Year	3.0	2.7	3.4
4. 1~3 Years	1.1	1.4	0.8
5. Longer than 3 Years	0.7	0.9	0.5
C. Part-Timers (Working less than 36 hrs a day)	3.8	1.6	6.8
D. On-Call Workers	4.0	4.7	3.0
E. Employed by Temporary Help Agencies(THA)	0.7	0.5	1.0
F. Employed by Onsite Contractors	2.4	2.4	2.4
G. Independent Contractors	3.9	2.4	6.1
H. Workers working at a Remote Place	0.9	0.2	1.9
I. Other Precarious Workers ^{14*}	22.1	16.6	29.7
I-1. Usually involved with 1~12 month employment	20.7	15.7	27.5
I-2. Usually involved with less than 1 month employment	1.5	0.9	2.2

Source: Korea National Statistical Office, Raw data of Contingent Supplement to Economically Active Population Survey, 2003.

14) Despite absence of written employment contracts, the workers in this category are usually involved with short term – less than a year - employment or short-term project based work. According to the survey question, eligibility of receiving any benefit, bonus, and severance pay, which are conventionally awarded to the regular workers in the Korean labor market context is used as an ancillary criteria to sort workers into this category. This category often brings about controversy in estimating the size of nonstandard employment because the decision based on workers' employment conditions does not accurately reflect their employment status and leads to an over-estimation.

Chapter 7

Union in Transition and the Changing Landscape of Collective Bargaining: Industrial Relations in Large Korean Companies

Harry Katz and Soonwon Kwon*

1. Introduction

The development of collective bargaining between employers and employees is an essential part of the history of trade unionism, and the structure of collective bargaining is embedded in the political economic structure. Its role is undoubtedly determined by the nature of the societies in which it operates, and its importance is well-illustrated by the size of union membership and the social influences of the collective bargaining. Our point of departure is that the economic development and social transformation during the past several decades have led to fundamental changes in union density, collective bargaining structure and its economic performance in Korea.

In this respect, this research is concerned with three general questions. (1) How is one to account for the emergence, growth and decline of union as a labor organization? In other words, why do some workers join labor unions and others do not (union density)? (2) What explains the patterns of collective bargaining? That is, what are the factors that explain the structures of collective bargaining which have emerged in each country? (Collective bargaining structure) (3) What are the ultimate

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goals of unions, and what is their relationship to national economic performance and social characteristics? (Relationship to society and national economy)

The central concern of this study is to understand these three areas of inquiries in Korean context. Variations over a supposed era in the collective bargaining structure, union activities (unionization) and the employers' strategies will be documented along with the transformation of institutional factors, which include the attributes of workforces and occupations, labor market, product market and business management of companies.

The study is divided into four sections. In the first section, theoretical ideas for understanding employer-employee relations and its implication for economic performance are reviewed. The second section offers an empirical illustration of the growth and decline of union membership (density statistics) in Korea, and the third section conducts an investigation into the development and transformation of collective bargaining structure in terms of *centralization*. Finally, in the last part, an institutional variable of bargaining structure (*concentration*, which is union monopoly) are estimated to verify whether it has an impact on economic performance.

2. Varieties of Unionism and Collective Bargaining

At the beginning of the 1950s, capitalist democracies had similar levels of labor organization, with union density varying between 30 and 60 percent. Density rates in 1950 ranged only from 28 percent to 66 percent (in the USA and in Sweden, respectively). By 1989, however, 83 percent of the Swedish labor force was unionized, while less than 20 percent (15%) of the United States' workers were union members. Despite the common constraints of capitalist democracy such as technological changes, occupational shifts, and global competitions, national labor unionism in many countries traced vastly different trajectories in the postwar period. (Western, 1998: 102; Golden, Wallerstein and Lange, 1999: 202).

Three explanations for the decline in unions over the past decade dominate current literature. The first emphasizes the impact of changes in technology in altering workplace relations and occupational structures in ways that are detrimental to the unity of union movements. For instance, the segmentation and division into small and diversified groups of workers with different market power has resulted in greater decentralization of centralized unions in some countries, especially in social democratic countries, where collective bargaining used to be especially encompassing and centralized¹. In addition, there might be a destabilizing impact from the rapidly growing weight of service sector workers and non-standard workforces.

Second, economic recession and competitive pressure in markets have instigated the rising uncertainty of union status, de-unionization and bargaining decentralization, especially since the supply shocks in mid and late 1970s² (Western, 1964). Under continuous stagflationary conditions, employers face increasing competitive pressures, and argue that the labor market flexibility is the necessary condition for successful economic performance under these recessionary conditions. These employers' moves brought about two types of collective action on the side of employers. First, they sought wage restraints and a tighter link between enterprise productivity and pay scales³ (Western, 1997: 165). Second, corporate management held a hard line to limit strike activities, deregulate the labor market, and keep asking for union's concession contracts.

The third explanation for union decline concerns the impact of increased economic integration, or what comes more generally to be termed *globalization*. Melvin Reder and Lloyd Ulman (1993) argue that economic integration erodes the ability of unions to raise wages above

1) Streeck(1993) and Pontusson and Swenson (1996) emphasize the decentralizing effect of the widespread adoption of new production technologies that place a premium on product differentiation and rapid responses to changes in consumer demand.

2) Two oil price shocks contributed to worldwide recession in the mid-1970s and early 1980s. In the OECD as a whole, the rate of economic growth between 1973 and 1981 was less than half of that between 1960 and 1973. With a sharp decline in productivity growth, the unemployment rate has risen monotonically since 1973. (Bruno and Sachs, 1985; 154-155). Since then, "the world market itself [has] become increasingly turbulent and unpredictable".

3) The typical instance of the wage restraints was the profit sharing

the level with the absence of unions. As long as unions' ability to *take wages out of competition* stops at *national* borders while production and consumption expand to the *global* market, the leverage of union wage bargaining is sharply reduced. Such union weakness is also exacerbated by the growth in capital mobility and increasing potential for firms to exist or to threaten to exit, if a union threatens their competitiveness and profits. Dani Rodrik (1996: 2) stressed, "Globalization makes it difficult to sustain the post-war bargain under which workers would receive continued improvements in pay and benefits in return for labor peace and loyalty."

As we have discussed here, the capability of trade unions to take themselves out of competition has been sharply decreased by industrial restructuring, sequential recessions accompanied by supply shocks, and global market competition. In the sections below, we explore each dimension of labor market institutions and collective bargaining, in relation to the analysis above.

2.1 Dynamics of union membership: density functions

We suppose that unionization is the function of *demand of labor*, *supply of labor*, *business cycle*, and *industrial structure*. First of all, union membership rate is a function of demand for labor. When the economic situation is in stagnation, demand for labor is weak, and accordingly competition for job increases. Under the condition, employers rigorously resist unions. The reason that employers fight against unions is that the costs of industrial action are relatively small in times of reduced demand. However, a strong economy improves union's capabilities by lowering employer opposition because of expanded demand (Western, 1998). In addition, union density (*demand for union*) is usually high when the *demand for labor* is highly *inelastic*, that is, when increases in wages will not result in significant reductions in employment in the sector: Alfred Marshall's ideas (1920) on four basic condition for union power can be usefully applied to figure out the logic of demand function on union density: (1) when labor cannot be easily replaced in the production process by other workers or machines; (2) when the demand for the fi-

nal product is price inelastic; (3) when the supply of nonlabor factors of production is price inelastic; and (4) when the ratio of labor costs to total costs is small. These conditions will lead to boost the union density. Peter Lange and Lyle Scruggs argued that sustained weak demand for labor will result in the decline of density rate. Even though unemployment may increase the stock of grievances of workers and therefore raise the possible demand for union representation (Ashenfelter and Pencavel, 1969), the dominant ideas are located in that the decline of demand for labor strengthens the hand of management, makes it more difficult for unions to accomplish their goals and therefore lessens demand for union.

Second, a supply for labor is also a functional factor of union density. In countries with the control over supply for labor, best represented by so-called *Ghent system*, the functional relation between unionization and unemployment under the general condition is likely to be reversed. The *Ghent system* boosts unionization by giving unions control over labor market competition from unemployed workers, and by maintaining contact between workers and unions during spells of unemployment. The *Ghent system* is a system of co-provision of unemployment insurance by firms and unions. According to Western (1997), two processes allow unions to control labor market competition under the *Ghent system*. First, eligibility provisions in *Ghent systems* are more likely to be explicitly permissive of unionism; Second, unions can control labor market competition simply because of how unemployment services are delivered. Union officials generally have considerable discretion in determining alternative employment and conditions under which unemployment becomes involuntary. Therefore, these *Ghent systems* provide unions with close institutional control over the labor supply, and under the condition, unionization continue to grow even for worldwide stagflation. Lange and Scruggs (1998) argued that *Ghent system* provides unions with “selective incentives” which are likely to induce workers to join the unions and to discourage them from leaving, especially under conditions of rising unemployment and economic insecurity. Thus, countries with *Ghent system* should be more resistant to environmental

changes that might otherwise depress union membership.

Third, lastly, the union density is also affected by the business cycles and industrial restructuring. When the prices rise, workers organize to protect their wages, and employers accede to labor organizing to avoid interruptions in production. Both profits and productivity affect the ability of the employer to absorb an increase in union wages. The next factor is industrial restructuring. Between 1970 and 1990, employment in secondary industries (mainly, manufacturing) throughout the OECD fell by about one-fifth, from 37 percent to less than 30 percent of the civilian labor force. In the same period, service sector of the OECD area expanded from 49% to 63% of all workers. The service industries consist of small, spatially dispersed, owner-operated businesses, often employing young, part-time, or female workers. These sectors thus present a more difficult organizing task than do the homogeneous work forces of traditional manufacturing industries (Troy, 1986). In sum, these structural changes in contemporary economies have undermined the traditional ground for labor unions as well as the traditional constituency of labor movement (Western, 1998; Bell, 1973: 137-142; Griffin et al., 1990; Lash and Urry, 1987). Furthermore, plant closings in the United States and other advanced countries since the 1970s have given unions a deadly blow (Bluestone and Harrison, 1982).

2.2 Labor market institutions: Logic of centralization and concentration

Labor market is an “institution that aggregates and fragments the interests of workers and employers” (Western, 1998: 30). Under the particular condition of a labor market, unions bargain with employers over various aspects of the employment contract, including pay and employee benefits, working conditions, policies regarding hiring and firing, job and overtime assignment, promotion, and employees’ grievances. Bargaining can occur at different levels and locus. That is, at one end of the spectrum, bargaining can be highly *centralized*, with representatives of entire industries sitting at the bargaining table to decide on contracts that bind multiple employers. At the *decentralized* end of the spectrum,

bargaining can take place between a union and a single company—or even between the workers and management at a single plant within a company. Therefore, in the highly centralized setting, labor market representation is broad and unified, and under decentralization, labor market representation is narrow and fragmented (Western, 1997: 30). In other words, bargaining *centralization* refers to the scope of the employees and employers covered or affected by the bargaining agreement. They determine whether unions represent workers by plant, by industry, or at the level of the national economy. These systems of representation draw lines of competition and cooperation in the labor market (Western, 1997: 29; Katz and Kochan, 2004: 167).

In comparison to other countries, Korea and Japan has a highly decentralized bargaining structure because the most collective bargaining occurs at the level of enterprise. Whereas the United States has also a highly decentralized bargaining structure, many labor contracts in many European countries cover entire industries or broad regions (Katz & Kochan, 2004). At the highest level of centralization, national representatives of employers and unions negotiate wages and conditions for the entire labor market. National union confederations bargain for labor, and central employer associations bargain for owners. More decentralized bargaining is found in countries where employers and unions negotiate wages for particular industries (industry bargaining), rather than the entire national economy. In these countries, organizational power resides with industry unions and employer groups. Finally, in decentralized labor markets, collective relations between employers and workers are found in individual firms or plants. In this case, employers are usually directly involved in the talks with enterprise unions. The breadth of collective interest that develops among workers depends importantly on the centralization of the institutions of interest representation. Centralized bargaining structure condenses representation into a single union covering all workers, whereas decentralized representation, by contrast, creates many local or firm level contests between workers and employers (Western, 1997: 29).

Union monopoly, *concentration*, is the number of national-level actors involved in the wage-setting process on the union side and the de-

gree of competition likely to characterize relations among them. It indicates the likelihood that labor overcomes internal coordination problems, and the likelihood that it resolves internal distributional conflicts. That is, it indicates the ability of a small number of actors to dominate decision making. In principle, the smaller the number of actors, the easier it to prevent free riding and therefore to obtain collectively optimal outcomes. Where small numbers are involved, unions can monitor and assess their own and each other's behavior. Fewer numbers eases their coordination problems in moderating wage demands, thereby reducing inflationary pressures and maintaining employment (Golden, 1993; Golden, Wallerstein and Lange, 1999)

Peter Lange (1984) articulated that 'unions could be thought of as playing an n-person prisoner's dilemma in which decentralized action among organizations resulted in collectively suboptimal outcomes. His prisoner's dilemma analogy suggested that "the more encompassing the union movement, the greater the concentration among unions, and the more centralized the authority of the peak associations, the more likely it was that the collectively optimal cooperative solution could be obtained"(Golden, 1993). The idea provides the more possibility to understand the important facets of inner politics of union and its influence. That is, the concentration of decision-making authority can reduce the potential conflicts and managerial costs between unions. Therefore, there are good reasons to believe that where union confederations are fewer in number and do less compete others, they will be better able to coordinate their behavior in ways ultimately beneficial to more members.

2.3 Collective bargaining structure and its socio-economic performance

The growth of the field of political economy and comparative industrial relations has been marked by a widespread theoretical and empirical concern with how unions have affected national economic outputs and outcomes. These studies have consistently found an association between labor movements with strong organization and more cen-

tralized bargaining structure and better economic performance (Cameron, 1982, 1984; Schmidt, 1982, 1983; Whiteley, 1983). The basic premise is that the more the parties are able to internalize wage externalities, the better macroeconomic performance is argued to become. That is, the “real wage moderation” characteristic of corporatist union movement was considered to be “the key to achieving low inflation and low unemployment after a supply shock” in the 1970s (Bruno and Sachs, 1985: 217).

Despite impressive theoretical and empirical success, the inquiry of the relationship between labor market institutions and economic outcomes has failed to find the satisfactory structural causes of national variations of economic performance. In this part, we will elucidate several theories demonstrating the associations between bargaining institutions and economic performance as the theoretical exploration to evaluate the Korean case.

Among the theoretical arguments explaining the relationships of labor movement and economic performance, Mancur Olson’s approach is very provocative. His idea is based on his rigid microeconomic assumption that “interest groups need to satisfy the material demands of their members. In order to do so, they can follow one of two strategies: a strategy of collective gain or a strategy of redistribution”. When pursued by the groups whose behavior affects growth, these strategies will have the effect of reducing the rate of growth below the optimal, often well below (Olson, 1982; 44).⁴ The typical organization for collective action within a society will, at least if it represents only a narrow segment of the society, have little or no incentive to make any significant sacrifices in the interest of the society; it can best serve its members’ interests by striving to seize a larger share of a society’s production for them. Olson, however, suggests the only exception of this rule. If the “special-interest organizations encompass a substantial portion of the societies of which they are a part, it may strive to increase the size of social pie”. “The members of the highly encompassing organization

4) Lange, P. and Garrett, G. “The politics of growth: strategic interaction and economic performance in the advanced industrial democracies, 1974-1980”, *Journal of Politics*, vol. 47, no. 5, pp. 792-827. 1985. p. 795.

own so much of the society that they have an important incentive to be actively concerned about how productive it is". That is, "the encompassing organization, if it has rational leadership, will care about the excess burden arising from distributional policies favorable to its members and will out of sheer self-interest strive to make the excess burden as small as possible" (Olson, 1982: 48). This exception to Olson's *logic* suggests that when trade unions are encompassing (when, for example, rates of unionization are high and a bargaining structure is more centralized), they can be expected to self-regulate their behavior in order to promote the collective good. For example, by being less militant in their wage demands, and more cooperative in industrial relations practices, the unions will contribute to greater profits, a more favorable investment environment, and higher rates of economic growth (Lange and Garret, 1985: 795). Olson's logic is linked to the idea of corporatism about the collective regulation on labor market and economic performance, even though their philosophical assumption is very different from others.

Corporatism contends that a high degree of collective labor market regulation with an encompassing union constitutes the preconditions for superior performance (Headey, 1970; Schmitter, 1981; Streeck & Schmitter, 1985). According to the argument, strong, corporatist associations, which are characterized by a high degree of internal centralization and encompassing membership domains, are forced to find internal compromises that also strengthen each party's stability to adopt a responsible policy line vis-à-vis external groups. To sustain their internal stability, such associations have to struggle for internal compromises that make all their member groups better off. This can be achieved only through centralized goal formation. Internal stability thus imposes on corporatist associations the imperative to reach Pareto-optimal solutions, which translates into the tendency to accommodate to the macroeconomic externalities of their policies. Therefore, a corporatist setting based on centralized negotiations between strong associations is argued to overcome the disruptive and conflict-provoking potential inherent in organized group interests. Hence, the corporatist thesis suggests a monotonic and positive relationship between the degree of collective

regulation and the bargaining parties' internalizing ability (Traxler and Kittel, 2000: 1155).

Lange and Garret (1985), in their seminal argument of 'conditional relationship' between labor's power and economic performance, criticized the argument of 'a monotonic and positive' relationship between centralized bargaining setting and 'internalizing ability' argued by corporatism. They argued that the impact of strong union movements on economic performance was conditional on the relative presence or absence of the other variable, especially leftist government. They agree with the notion of corporatism, that is, they admit the argument that powerful central union confederations which are assumed to be able to deliver the restraint have an interest in pursuing a collective gains strategy. Such a strategy, however, is only rational where the uncertainty that restraint will be translated into favorably distributed economic growth is low. Leftist control of government will reduce this uncertainty, because the state is likely to provide strong incentives for capital to reinvest in the national economy, and to enact policies guaranteeing that future increases in societal product are distributed favorably to workers. Where the labor movement is organizationally encompassing but not politically strong, the uncertainty associated with foregoing short-term benefits makes a strategy favorable to higher rates of economic growth less likely.

Likewise, Calmfors and Driffill (1988) argue that the net impact of the competitive and externality effects is to produce a U-shaped relationship between a country's economic performance and the centralization of its bargaining system. Decentralized bargains externalize to a large degree the negative consequences of higher wages, but are constrained by competition in the product market. A centralized union, on the other hand, will internalize more of the negative externalities resultant on the wage outcome as it considers the welfare of all its members in the economy. By contrast, economies with an intermediate level of wage bargaining suffer from both the absence of competitive pressures and from a lack of internalization of negative externalities. According to their logics, these latter countries are hypothesized to exhibit less favorable macroeconomic performance.

About the arguments of Calmfors and Driffill (1988) and the logic of Lange and Garret (1985), David Soskice (1990: 36-61) rejects the hump shaped hypothesis as well as the attempt to rehabilitate a linear model. He contends that regardless of the formal location of collective bargaining, the main source for national economic performance in terms of union activities is *coordination* mechanism of collective bargaining, which occurs at the several levels of wage bargaining. As a result, the coordination can take place even where a collective bargaining structure is highly decentralized, such as Japan.

Last idea on the associational relations between union organization and bargaining performance is contributed by Mariam Golden (1993). She distinguishes the influence of centralization from union monopoly (*concentration*) effect. She supposes that *bargaining concentration* is a more important explanatory variable for national economic performance than union centralization. According to her, centralization speaks to the extent to which confederal unions are able to vet wage demands, sanction strike action, and generally disperse union resources. However, "within union movements in democratic societies, the *authority* that comes with such instruments of ostensibly coercive control is ultimately voluntary, resting as it does on the ongoing decisions by subordinate union actors to acquiesce to it. Democratic trade unionism almost everywhere entails the autonomy of union bodies to coalesce or secede as they choose. Ultimately, therefore, the authority of central confederations consists in the ability to withhold strike funds and the threat (sometimes) to expel a disobedient union. The authority of central confederations over their affiliates, especially their largest affiliates, is thus inevitably likely to rest more on bargaining and agreement among the parties than on any coercive capacity the confederation may appear to exercise" (Golden, 1993: 440). Therefore, the coordination among unions by central authority may effectively achieve wage moderation of unions and accordingly economic performance of collective bargaining, even in the absence of centralization. To summarize, Golden's argument shows that the concentration of authority in the union organization is a prerequisite for an effective incomes policy, for sustained wage moderation, or for the better economic performance. That is, the number of national unions and

central confederations is one of the most important structural characteristics of organized labor affecting national economic performance (Golden, 1993).

3. Korean Unions in Transition

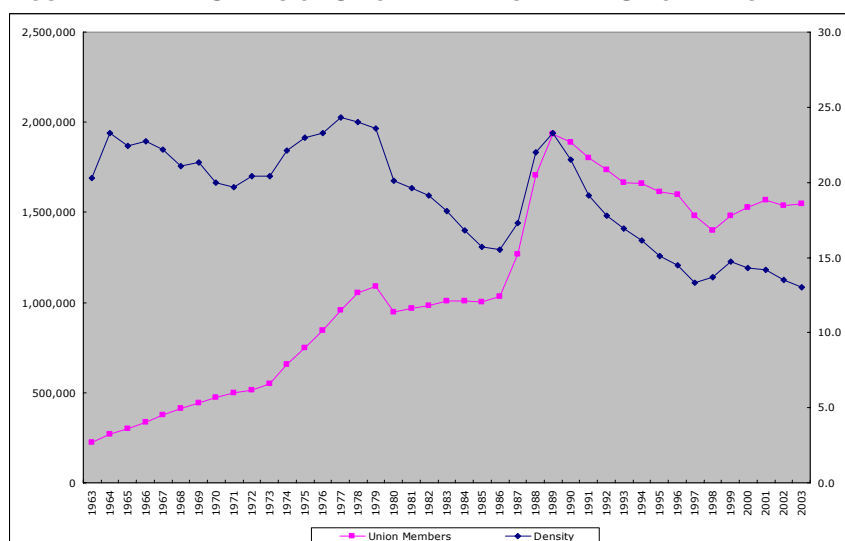
3.1 Changing dynamics of union density in Korea

An overall measure of union organization in a labor market is given by the union membership and density statistics. As defined in the previous section, *union density* is the number of union members expressed as a percentage of the number of people who could potentially be union members. Union membership and density rate in Korea changes over time and varies substantially across industries, occupations, regions, and companies. The data reviewed below analyze how union membership varies over time.

Korean unions have experienced a fluctuation in the share of the work force organized after the early 1980s. In the aggregate pattern revealed by the table, the general level of union density in Korea increased sharply through the 1987 labor struggle and since then decreased slowly by the late 1990s, especially around 1997 economic crisis. After 1998, the density increased slightly but since 2001, it started to decrease again (Table 7-1 & Figure 7-1).

What explains these events? First of all, unions have had difficulty gaining new members in part due to changes that have occurred in the nature of jobs. Unions historically have had the greatest success in organizing males in manufacturing occupations for the period of industrialization⁵. In Korea, after the mid 70s, the traditional industrial working class grew out of manufacturing industries. Since the mid-70s, the capital concentration in the *chaebol* companies had occurred at a remarkable speed, so that by 1985 the top ten *chaebol* groups accounted for 30.2 percent of the nation's total sales and for 11.7 percent of total employ-

5) Even though, in Korea, the female share of unionization was high in 1970s and even the early 1980s, it sharply decreased with the industrialization based on heavy and chemical industries.

FIGURE 7-1 TIME SERIES OF UNION MEMBERSHIP AND UNION DENSITY

ment, and the top thirty *chaebol* groups accounted for 40.2 percent of total sales and 17.6 percent of total employment. Through this process, the proportion of the manufacturing workforce employed in heavy and chemical industries increased from 39 percent in 1973 to 53 percent in 1985. This sectoral change was accompanied by the wide unionization of male workers in heavy and chemical industries. Especially, through the labor uprising of 1987, the male semi-skilled workers of large Korean factories in the heavy and chemical industries emerged on the front lines of the labor movement (Koo, 2000).

The trends have worked against unions with the expansion of service and (female) contingent workers. Statistical test of union density in Korea demonstrates substantial gender disparity (Table 7-1). This gender difference is linked to sectoral deviation. More recently, sectoral variation has been an important part of the unionization story in the context of the growth of service sectors mostly occupied by female workers. Since the turning point of 1989, the union density of male sector has decreased about 8.7%, whereas that of female sector has relatively sharply declined by 11.7%. The employment share of female service workers rose through the 1990s, but the union organization of

TABLE 7-1 UNION DENSITY

	Density (A)			Density (B)		
	Total	Male	Female	Total	Male	Female
1980	20.1	18.5	23.6	14.7	13.6	17.0
1985	15.7	15.9	15.2	12.4	13.1	11.1
1986	15.5	16.2	14.2	12.3	13.2	10.5
1987. 6.30	14.7	15.6	12.9	11.7	13.0	9.5
1987.12.31	17.3	18.5	15.0	13.8	15.3	11.1
1988	22.0	23.9	18.1	17.8	20.1	13.7
1989	23.3	25.8	18.5	18.6	21.8	13.4
1990	21.5	24.4	16.3	17.2	20.5	12.0
1991	19.1	21.9	13.8	15.4	18.5	10.4
1992	17.8	21.1	11.8	14.6	17.9	9.1
1993	16.9	20.2	11.0	14.0	17.2	8.7
1994	16.1	19.6	9.9	13.3	16.6	7.9
1995	15.1	18.5	9.2	12.5	15.7	7.3
1996	14.5	18.2	8.3	12.1	15.5	6.6
1997	13.3	17.3	6.9	11.1	14.7	5.5
1998	13.7	17.6	6.8	11.4	15.2	5.3
1999	14.7	18.4	8.3	11.7	15.4	6.1
2000	14.3	18.3	7.6	11.4	15.3	5.7
2001	14.2	18.5	7.1	11.5	15.7	5.4
2002	13.5	17.9	6.7	10.8	14.9	5.1
2003	13.0	17.1	6.8	10.8	14.5	5.5

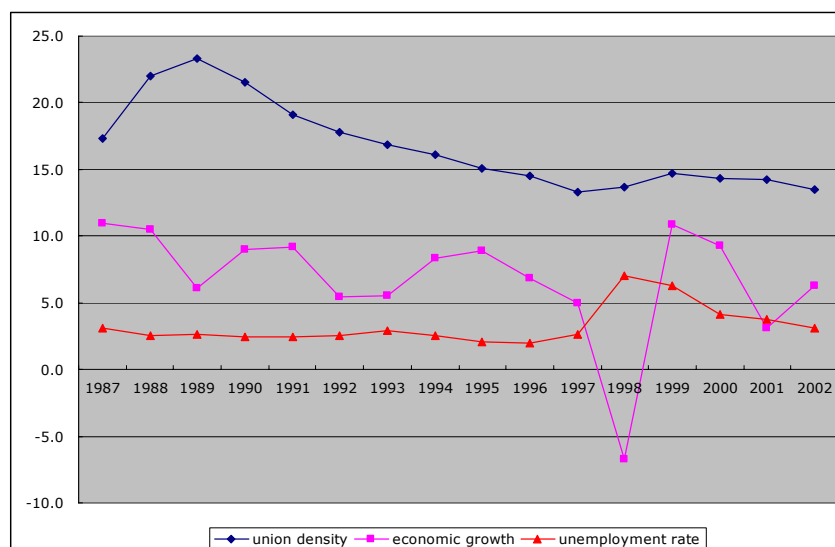
* (Union members / Non-agricultural workers) x 100

** (Union members / Wage workers) x 100

those workers was particularly weak because they are mostly engaged in part-time or contingent work. Above all, it is obvious that the sharp increase of non-standard workforces since the economic disaster has continued to accelerate the deunionization.

On the other hand, union membership change and density statistics are influenced by the state of the economy, such as the rise and fall in inflation, unemployment rate or GDP growth. When time series of union density are placed in comparative perspective, several interesting patterns emerge. [Figure 7-2] exhibits the functional relations of union density, economic growth (GDP) and unemployment rate on way of examining the recorded trends. Especially, industrial relations system of enterprise unionism in Korea is supposed to be more susceptible to the economic condition of each company.

As John R. Commons noted in his analysis on the development of American industrial relations, unions in Korea also grew during economic success and declined during economic downturns. In the 1997 crisis, union membership fell into the lowest level for 20-years, but with the

FIGURE 7-2 UNION DENSITY FROM THE CYCLICAL FACTORS

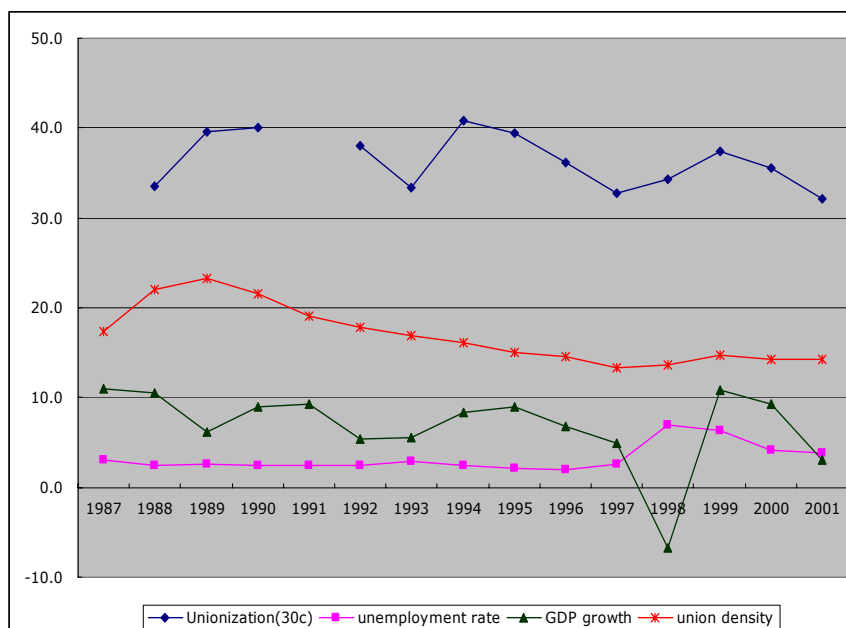
rapid recovery of national economy, the density also rose by almost 15%.

After 1997 crisis, union membership seems to be fluctuated in sync with changes in the business cycle throughout that period. As labor markets tightened during an upturn in the economy, Korean workers became more aggressive in pursuing their goals, while employers became less resistant to collective efforts by their employees. Tighter labor markets gave workers more bargaining power and thereby increased the payoffs to unionization (1999 from Figure 7-2). We consider that with the higher profit rates that accompany their prosperity, employers had more to lose during strikes and unionization drives, and therefore they had fewer incentives to resist unionization.

3.2 Dynamic transition of unionism among the Big 30 *chaebol* firms

As shown in Figure 7-3, the rate of unionization⁶ of the Big 30

6) The rate of unionized companies among total subordinates of the 30 largest *chaebol* companies

FIGURE 7-3 UNIONIZATION IN THE BIG 30 CHAEBOLS FROM ECONOMIC CONDITIONS

chaebols peaked in the mid 1990s (1994) at around 40 percent. Comparing the unionization rates in the 30 largest *chaebol* companies with union density rate, we realized two factors: First, the unionization rate in the large Korean firms has remained relatively stable and high between 30% and 40% in spite of the 1997 economic crisis. Second, despite the relative stability of the unionization in *chaebol* companies, quiet substantial fluctuation have occurred due to economical factors, such as profit growth (Figure 7-8). We suppose that the fluctuation, which we observe in unionization rate of 30 *chaebol* companies, is a function of the sustained moves of the cyclical factors, for example, weak demand for labor.

As illustrated by Figure 7-3 and Figure 7-6, the Big 30's unionization coincided more or less with the movement of business profits and national economic growth, while changes in unemployment rates do not immediately translate into unionization activities.

Figure 7-4 and 7-5 reveals that the unionization rate in the Big 30

chaebols responds more sensitively to business cycle movement than to other factors. We expect that the large Korean firms tend to track labor market conditions with less intervention of the other structural factors (such as, social or political factors), whereas small or medium firms are more influenced by the structural factors than business cycle movement.

FIGURE 7-4 PLOT OF UNIONIZATION IN BIG 30 CHAEBOLS AND ECONOMIC GROWTH

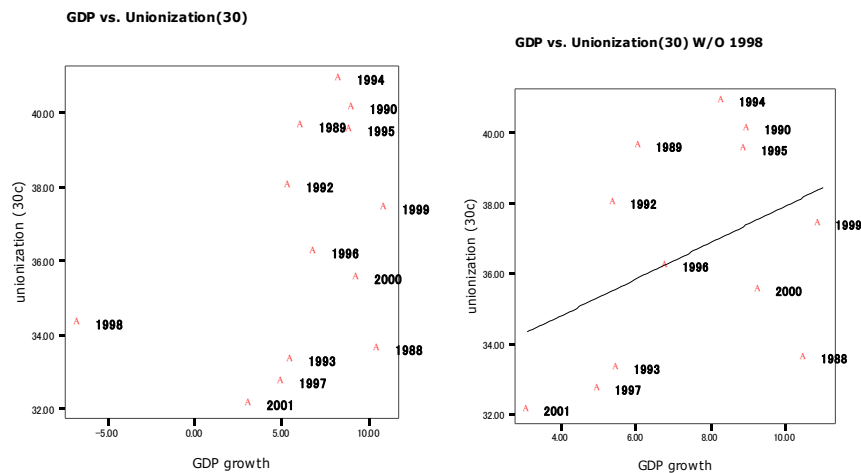


FIGURE 7-5 PLOT OF UNION DENSITY AND ECONOMIC GROWTH

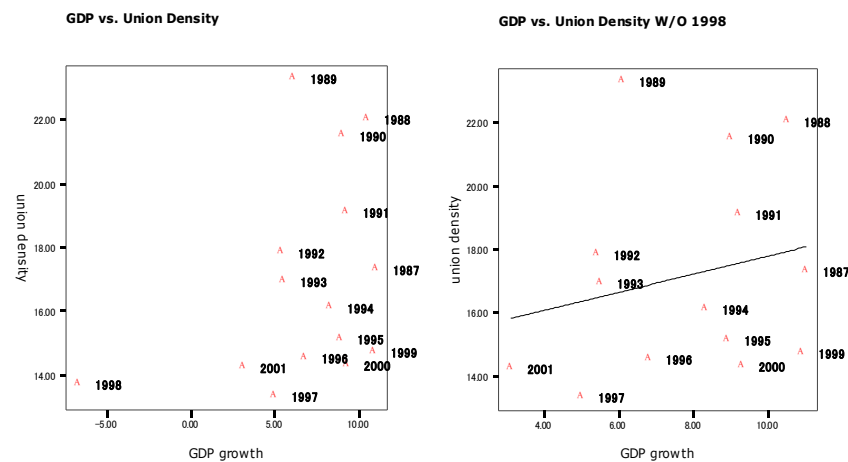
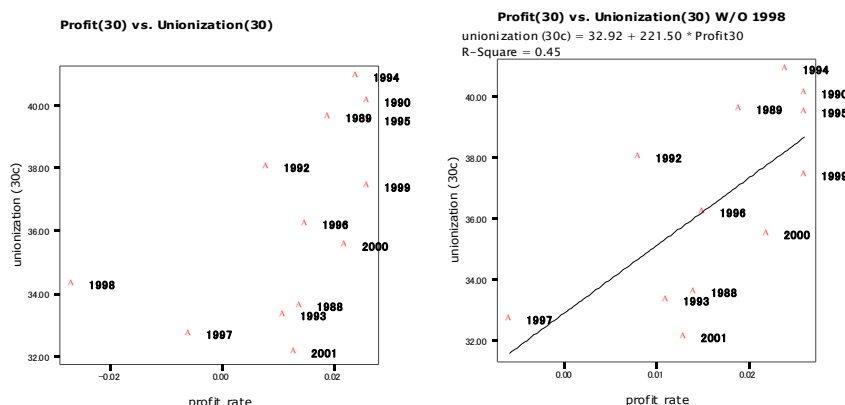
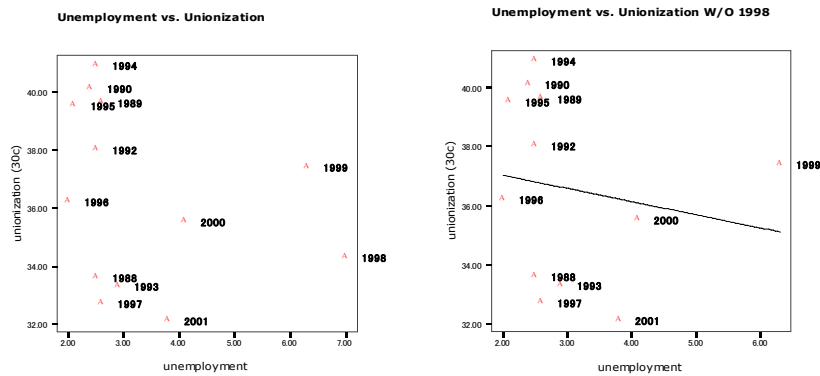
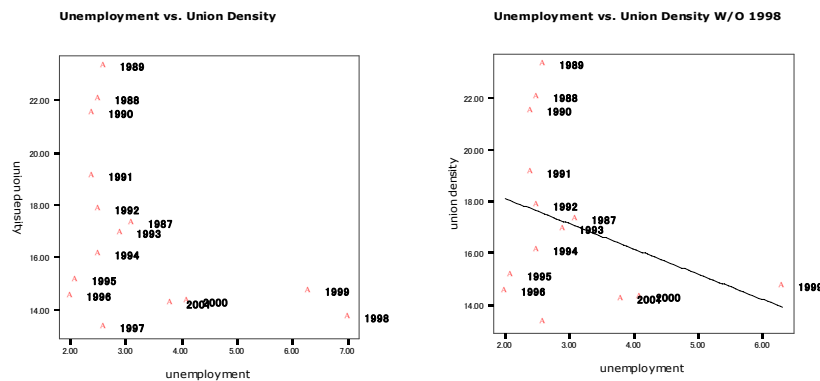


FIGURE 7-6 PLOT OF UNIONIZATION IN BIG 30 CHAEBOLS AND BUSINESS PROFITS OF THE BIG 30

It is worth noting that the unemployment rate does not produce a meaningful change in unionization rate in Big 30 *chaebols* as well as union density (Figure 7-7 & 7-8). There are two reasons. On the one hand, in Korea, unemployment rates remained steadily over the past decades (between 2% and 3%), before it increased in a spurt after the 1997 economic crisis. Therefore, unemployment rate did not work as a significant independent variable in union growth function. In addition, there are a host of labor market and public policies that act to diminish an effect of unemployment on union movement. Those factors might hide the direct influence of unemployment.

One of the most interesting facts is that the differences in business profits in the Big 30 *chaebols* are substantially represented in unionization rates of the sector. Moreover, there exists a more evident liner pattern in the plot after the removal of the outlier effect of 1998 (the second plot of Figure 7-6). It means that both employer and employees in the Big 30 *chaebols* are responding at least to changes in their own business cycle. As we assume it is mainly facilitated by the enterprise unionism.

To summarize, the overall impression from the data is that the unionization statistics in the large Korean firms is more closely associated with movement in business performance, especially national economic growth and companies' business profits, but less with unemployment rates.

FIGURE 7-7 PLOT OF UNIONIZATION IN BIG 30 CHAEBOLS AND UNEMPLOYMENT RATES**FIGURE 7-8 PLOT OF UNION DENSITY AND UNEMPLOYMENT RATES**

4. Collective Bargaining Structure and Union in Large Korean Firms

Reports have appeared since the early 1980s suggesting that the locus of collective bargaining is shifting downward in a number of countries, often from a national or multi-company level to the firm or plant level (Katz, 1993). Bargaining structure has been recognized as influential because it affects the process of bargaining. We know that access to detailed information about the direct and indirect participants to a labor agreement is the precondition for understanding how bar-

gaining occurs. The structure of bargaining also is important as it affects bargaining outcomes and the roles of unions and management. For commons (1909) and Ulman (1955), it has been observed that unions often centralize bargaining to strengthen their leverage at the bargaining table.

History also demonstrates, however, that although in many cases unions prefer centralized bargaining (to take working conditions out of competition) and employers prefer decentralized bargaining (to respond to local conditions and gain whipsaw advantage), the parties' preferences are not always so simply ordered. In some cases, for example, unions prefer firm-level over industry-level bargaining because the former gives them a power advantage. In some other cases, both large employers and their unions favor industrywide bargaining as a device through which they can "cartelize" the industry and drive out low-cost competition. We also come to understand that bargaining structure both influences and is influenced by the distribution of bargaining power.

The difficulty of assessing the effects of bargaining structure arises in part from the fact that there is no simple measure of the degree of bargaining structure centralization, because the location of collective bargaining often differs depending on the subject of bargaining. In many countries, wages are negotiated in company or sectoral agreements, and work rules are set at a lower level, often in plant agreements. Furthermore, worker participation in decision making often occurs at still another bargaining level or through informal mechanisms (for example, works councils or shop floor discussions) rather than through collective bargaining agreements (Katz, 1993).

Although we can not argue the uniform trend of bargaining decentralization, it is possible to point to suggestive evidence concerning the trend or symptom of recent decentralization in many countries, especially in Korea. In addition, we know that bargaining structure exerts significant effects on the internal politics of unions, and economic performance.

4.1 Is bargaining structure changing in Korea?

Compared to other countries, Korea has experienced a highly de-

centralized collective bargaining structure in the union sector, with almost all bargaining occurring at the company level. In Korea, only one union and employer can conclude a collective agreement on the issues of industrial relations. Moreover, the military government led by Chun prohibited the third party from intervention in collective bargaining for a couple of decades. The enterprise unionism in Korea is the most distinguishing feature of Korean industrial relations.

Enterprise unions in Korea represent mainly the blue-collar employees in a single firm, regardless of occupation or job, and sometimes the unions include the white-collar workers in the companies which are mainly composed of professional workers, such as journalist, researchers, and hospital employees.

The enterprise unions commonly are associated with industry union federations, which are, in turn, affiliated with union confederations (FKTU or KCTU). Employers commonly belong to counterpart federations, the employer federations (*Kyung-Chong*). Both union and employer federations provide advice and engage in political lobbying but do not become directly involved in enterprise-level collective bargaining.

In the most collective bargaining, pay agreements are set in annual negotiations that occur between a firm and the enterprise union, and other issues are established in every other year agreements.

Although industrial or general unions are rare in Korea, industry-level collective bargaining started to occur in several sectors after the 1997 crisis. Those include banking sector (the Korean Financial Industry Union), hospital workers (the Korean Health and Medical Workers Union) and metal workers (the Korean Metal Workers Union).

From the recent cases, some researchers (Lee & Lee, 2003) argue that there is a tendency to the upward shift in the formal structure of bargaining and a consequent increase in the frequency of industry-level bargaining. They suppose that even though company-level bargaining

TABLE 7-2 ORGANIZATION UNIT OF UNIONS IN KCTU

Organization	Number of Unions (%)	Union Members (%)
Enterprise Union	752 (88.1)	357,912 (57.6)
Industry-level Union	26 (3.0)	253,033 (40.8)
Local Union	76 (8.9)	9,867 (1.6)
Total	854 (100)	620,812 (100)

will persist, the frequency and importance of industry-level bargaining will rise widely. According to the arguments, the *structural adjustment* of collective bargaining system has been instigated by the 1997 economic crisis. Following the economic crisis, the established system of Korean industrial relations experienced an important crisis, and, “at the same time, was given an opportunity to rise above the usual enterprise unionism” (Lee & Lee, 2003: 150). The central mechanism of the crisis as well as the opportunity is the introduction of lay-off and the demise of long-term employment practices (so-called lifetime employment). “The introduction of layoffs severely damaged the precarious balance between pragmatic enterprise unionism and industrial peace” (Lee & Lee, 2003: 152). The diminishing power of the historical enterprise unions at the workplace brought about the deunionization in workplace and the growing individualization of employment relationships. Accordingly, several unions and industry-level confederations initiated to restructure their collective bargaining structure. To summarize the Lee and Lee’s argument, the economic crisis provides simultaneously the crisis of enterprise unionism and the opportunity for the restructuring of wage bargaining system.

Although centralized negotiations have been reported in several industry-level bargaining in recent, there is very little evidence providing confident tendency to stable industry-level bargaining. In addition, there exist a couple of logical and factual mistakes in Lee & Lee’s literature.

First of all, the industrial relations practices in Korean companies, especially large firms, did not depend on the balance of enterprise unionism and industrial peace based on the long-term employment (lifetime employment). The typical mechanism of enterprise industrial relations relied on the authoritarian system of labor control even by the 1990s. Faced with increasing competition in export markets and faced with empowered unions domestically, Korean large companies adopted various strategies to curb labor power on the shop floor. These new corporate strategies had the serious effect of disaggregating the organized workers (Koo, 2000). In short, the main mechanism of industrial relations practices in large Korean firms was not the *micro-corporatism* between employers and unions at the company level, as they argued, but

the “precarious” combination of patrimonial domination of employers (Kwon, 2005) and empowered enterprise unionism. Thus, it seems not to be accurate to argue that the employment derived from the 1997 economic disaster instigated the crisis and demise of Korean enterprise unionism.

Second, It is also not in accordance with the facts to argue that the economic crisis provided an opportunity for industry-level bargaining and it made unions undertake the restructuring of bargaining structure. KCTU has set the industry-level bargaining system as the major organizational goal from their initiation. Therefore, they have tried to transform the established enterprise bargaining system to industry-level bargaining structure over a decade. The outcomes of the endeavor are the industry-level agreements by the Korean Health and Medical Workers Union and the Korean Metal Workers Union.

In addition to the logical problems mentioned above, there exist a certain amount of skepticism and difficult obstacles to transform the bargaining structure. A major obstacle is the lack of employers’ associations. Korean employers are poorly organized. Except for the Korea Employers Federation (KEF), which is organized at the national level and specializes in labor-management relations, employers are not in a position to engage in industry bargaining. Even with comparable occupational organizations, they have usually refused to bargain with industrial unions.

Another “formidable barrier” for restructuring process of bargaining structure is the absence of faithful support on the part of enterprise unions, especially in the large business firms. As Lee & Lee mentioned, “some enterprise union leaders have been quite hesitant about relinquishing their bargaining rights to industrial unions”. As a result, big enterprise unions in metal industry have not yet joined the Korean Metal Workers Union. Moreover, it is also obvious that the union members in big enterprise unions are more reluctant to join to the industry-level unions because they are concerned about the downward standardization of wage and other working conditions.

The skepticism comes from the organization structure of industry-level unions. The current industry-level unions are the organizations

that the enterprise unions are simply and mechanically unified into an industrial union. The major initiatives of union activities are still located in enterprise unions, even though the wage bargaining occurs at an industry-level in some cases. Except the Korean Financial Industry Union, the members of the other industry-level unions are very heterogeneous among members. Furthermore, they do not include the unemployed and contingent workers as regular members, because the organization unit is still situated in company level.

In sum, the overall estimation of the current situation reveals the fact that the reform process of bargaining structure is not so favorable.

4.2 Symptoms for decentralization of bargaining structure

Even though centralization in Korean collective bargaining structure is documented in several literatures, the best available evidence is consistent with the story of decentralization. First of all, it is important to keep in mind that deunionization represents an extreme form (perhaps the ultimate form) of bargaining structure decentralization. As unionization declines, fewer workers are covered by any sort of labor contract. Unorganized employees have their employment conditions determined either exclusively by employers and the market or through individual (formal or informal) bargains. Over several decades included in the [Figure 7-1], union density declined substantially after the peak point of 1989 in Korea, although it slightly fluctuated around the exceptional economic crisis in 1997. Therefore, if deunionization is counted as a form of decentralization and is added to all the other evidence, the downward movement in bargaining structure in Korea is quite spectacular.

Bargaining structure is viewed both as a reflection of the parties' relative power and as a determinant of power. Therefore, the second symptom for bargaining structure decentralization in Korea results from an increase in management's power and a relative decrease of employees' power. As Windmuller (1987:86) noted in describing labor and management's preferences for bargaining structure in various countries, "In so far as preferences do exist, they are predominantly the outcome

of assessments by the parties of how their interests—that is, their relative bargaining power—will best be served.” As a result, recent bargaining structure decentralization in many countries can be interpreted as a demise of union bargaining power to take wages out of competition. With the relative increase of managerial power, employers strived to intensify flexibility in employment relationships and industrial relations practices to respond to changing market conditions. These structural pressures are in turn associated with a substantive shift in the structure and contents of collective bargaining. Even in Korea with highly decentralized system, more volatile international markets since the 1990s have intensified conflict with employers who are seeking greater flexibility through a retreat from uniform, national standards in favor of flexible bargaining on issues such as wages, working times, and work reorganization. In addition, Korean government deregulated labor relations, and in turn management attempted to restructure the industrial relations systems through market mechanism with the expectation that this change would produce bargaining outcomes more favorable to management. As a result, the dynamics of change revealed that collective agreement may be set at the lower units due to market globalization and the pressure for more flexibility. For example, employers in large Korean firms have sought changes in traditional bargaining institutions that give them greater flexibility in personnel and wage policy.

The third explanation for the possible decentralization of bargaining structure in large Korean firms results from increased diversification of both corporate structure and worker interests. On the corporate side, the decentralized bargaining can be produced as a product of the decentralization of corporations’ internal organizational structure, which has increased in independence of business units or profit sectors. In this case, bargaining decentralization may be seen as a natural consequence of a process in which more direct responsibility for industrial relations is being passed to lower-level managers in the decentralized corporation. In addition, a widening diversity in worker interests (or erosion of worker solidarity) can explain bargaining structure decentralization in a manner that parallels the corporate diversification argument. The claim in this case is that workers have become less willing to join together to pursue common objectives or sacrifice their own personal gain for the

benefit of other worker. For example, the reject of Hyundai Motors Union to join the Korean Metal Workers' Union can be read as the result of the divergence of the interests of working class. According to Piore and Sable (1984), the push for corporate diversification and decentralization itself is said to be a product of such economic pressures as volatility and uncertainty in the economic environment, the shift from mass to specialized product market, and increased variation in economic pressures across business lines. These economic pressures combine to put a greater premium on flexibility as the corporation searches for ways to more quickly respond to rapidly changing and competitive environment. Therefore, many business people, who include even some sections of employees, can consider that the centralized bargaining structure is more fit to mass production system with standardized tastes.

4.3 Centralization, concentration and coordination problems

4.3.1 Centralization and coordination

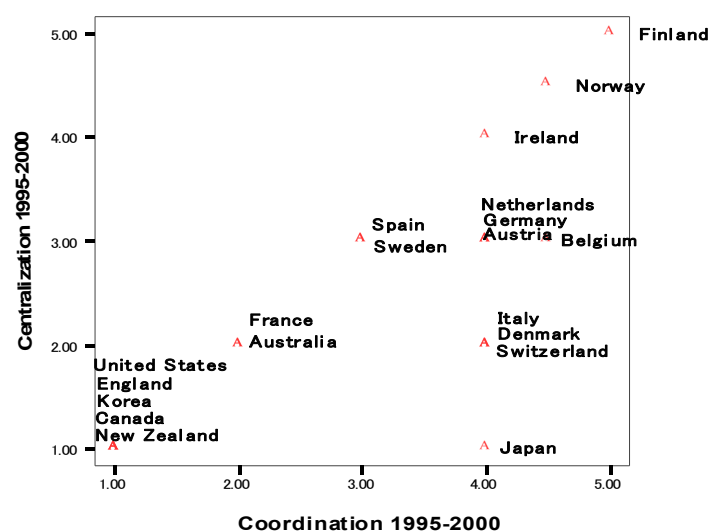
This section provides an informative illustration of the bargaining structure (centralization and coordination) and union decision-making structure (concentration). As talked above, in spite of the centralization tendency of Korean collective bargaining structure, the majority of bargaining occurs in the decentralized level, and even in the case of some industry-level bargaining, those will be included in the *decentralized* category.

The evaluation from the classification table (Table 7-3), which defines the degree of bargaining centralization, exhibits that the wage setting in large Korea companies widely occurs in decentralized structure despite of the introduction of industry-level bargaining in a few sector. Korean industry-level bargaining belongs to the category *D1* and *D2* in the table. In addition, it is noteworthy that although the negotiation occurs at the level of industry, enterprise bargaining can change the industry-level agreements. It means that the bargaining authority of industry-level union is weak, and therefore those bargaining patterns can not be defined as an industry-level bargaining. In addition, the category suggests that there are no cases of *C* and *IC* in Korean bargaining system.

TABLE 7-3 CLASSIFICATION SCHEME FOR CENTRALIZATION OF AUTHORITY

	Definitions
Centralized	C1 National associations monopolize wage bargaining and agreements are enforceable. Lower level bargaining is banned
	C2 National associations monopolize bargaining and agreements are enforceable. Local bargaining is permitted subject to a peace clause.
Intermediately centralized	IC1 National associations negotiate central agreements with some capacity for enforceability, but industry-level organizations retain the right to bargain separate agreements without adherence to a peace clause.
	IC2 National associations and/or the government set non-enforceable targets for lower level bargaining, but industry-level organizations retain rights to bargain enforceable agreements. Local bargaining is permitted subject to a peace clause.
	IC3 Industry-level organizations monopolize bargaining and strike/lockout decisions, and agreements are enforceable. Local bargaining is permitted subject to a peace clause
Decentralized	D1 National associations and the government set non-enforceable targets for plant-level bargaining, but local organizations retain rights to bargain and to call strikes/lockouts.
	D2 Industrial-level organizations retain right to bargaining enforceable agreements, but local/firm organizations can change the agreements.
	D3 Plant- and firm-level bargaining predominates with some elements of industry-level bargaining.

Re-classification by the authors from Iversen, 1999.

FIGURE 7-9 PLOT OF CENTRALIZATION AND COORDINATION OF OECD COUNTRIES**Centralization vs. Coordination**

According to another illustration from a comparative research by OECD, Korea provides the extreme case of labor market decentralization and uncoordinated wage bargaining. Korea is one of the countries with the lowest centralization as well as the poorest coordination when it is evaluated by the centralization and coordination index among OECD countries. More careful review of the scatterplot reveals that the variance of wage coordination is greater at low levels of centralized bargaining structure than at high levels. Particularly striking case is Japanese coordination system without bargaining centralization. Although the centralization index of Japan is the lowest among the surveyed countries, the index of coordination is much higher than the level of centralization (4.00). It indicates that the labor relations system in Japan relies heavily on informal consultation between labor and management to settle interest disputes (*micro-corporatism*).

4.3.2 Concentration

Another index to evaluate the bargaining structure is given by the degree of concentration, or union monopoly. With regards to internal cohesion of union organizations (*concentration*), the Korean unions have experienced a loss of cohesive power when they coordinated the inter-organizational conflicts. In this section, we investigate changes in concentration, or the extent to which single organizations of workers organize potential constituents. Concentration indicates the ability of a small number of actors to dominate decision making. In principle, the smaller the number of actors, the easier it is to prevent free riding and therefore to obtain collectively optimal outcomes (Golden, 1993).

We measure the degree of concentration following Golden, Wallerstein and Lange (1999). However, unlike the original definition, we do not only take national confederations, but also industrial confederations as the basic analytical unit. In addition, we measure one dimension of the concentration index. The dimension, inter-federal concentration, refers to the number of actors and their relative size at the confederation level as well as the industrial federations-level. We measure inter-federal concentration by the number of union confederations at both level and the distribution of union members among them.

TABLE 7-4 UNION CONCENTRATION INDEX

	Unions	Total union members	Confed	Industrial federations	Unions per industrial federations	members per enterprise unions	members per industrial federations
1970	3,500	473,259	1	17	205.9	135.22	27838.76
1971	3,525	497,221	1	17	207.4	141.06	29248.29
1972	3,409	515,292	1	17	200.5	151.16	30311.29
1973	3,286	548,054	1	17	193.3	166.78	32238.47
1974	3,802	655,785	1	17	223.6	172.48	38575.59
1975	4,091	750,235	1	17	240.6	183.39	44131.47
1976	4,389	845,630	1	17	258.2	192.67	49742.94
1977	4,598	954,727	1	17	270.5	207.64	56160.41
1978	4,875	1,054,608	1	17	286.8	216.33	62035.76
1979	4,965	1,088,061	1	17	292.1	219.15	64003.59
1980	2,635	948,134	1	16	164.7	359.82	59258.38
1981	2,158	966,738	1	16	134.9	447.98	60421.13
1982	2,208	984,136	1	16	138.0	445.71	61508.50
1983	2,255	1,009,881	1	16	140.9	447.84	63117.56
1984	2,382	1,010,522	1	16	148.9	424.23	63157.63
1985	2,551	1,004,398	1	16	159.4	393.73	62774.88
1986	2,675	1,035,890	1	16	167.2	387.25	64743.13
1987	4,103	1,267,457	1	16	256.4	308.91	79216.06
1988	6,164	1,707,456	1	21	293.5	277.00	81307.43
1989	7,883	1,932,415	1	21	375.4	245.14	92019.76
1990	7,698	1,886,884	1	21	366.6	245.11	89851.62
1991	7,656	1,803,408	1	21	364.6	235.55	85876.57
1992	7,527	1,734,598	1	21	358.4	230.45	82599.90
1993	7,147	1,667,373	1	26	274.9	233.30	64129.73
1994	7,025	1,659,011	1	26	270.2	236.16	63808.12
1995	6,606	1,614,800	1	26	254.1	244.44	62107.69
1996	6,424	1,598,558	1	26	247.1	248.84	61483.00
1997	5,733	1,484,194	1	40	143.3	258.89	37104.85
1998	5,560	1,401,940	1	42	132.4	252.15	33379.52
1999	5,637	1,480,666	2	43	131.1	262.67	34434.09
2000	5,698	1,526,995	2	44	129.5	267.99	34704.43
2001	6,150	1,568,723	2	45	136.7	255.08	34860.51
2002	6,506	1,538,499	2	41	158.7	236.47	37524.37
2003	6,257	1,549,949	2	43	145.5	247.71	36045.33

With regard to the inter-confederal concentration, the confederations of Korea were divided into two groups in 1997, actually from 1990 along essentially political and ideological line (FKTU and KCTU). To a large extent, this reflected changes in the Korean labor movement. In addition, with respect to industrial federations and membership in the federations, the time series test divided the period into two sections, as illustrated by the data reported in Figure 7-10. Over a couple of decades before the 1987, the concentration measured by the number of indus-

trial federations has clearly been stable. In addition, the ratio of union members enrolled in any of the major industrial federations to total union members was not also changed at least before 1987 labor struggle.

In the second period of the time series, comprising the aggressive labor struggle and economic crisis, the concentration score has clearly declined in opposite directions over the previous period. This demonstrates Korea's "new unionism" and represents the democratic union movement after the 1987. For the period, Korea experienced the mobilization of democratic unionism organized by new independent union organizations, and this led to the separation of the national confederation and the diversification of industrial union confederations. As a result, the share of union members enrolled in each confederation and industrial federation has fallen after the time since the membership dispersed into new organized federations. As a result, the decline of the ratio of union member in industrial federation to total union members has been observed since 1988.

Moreover there appears to be a relationship between union density and concentration (the number of industrial federations). After 1989,

FIGURE 7-10 UNION MEMBERSHIP (MEMBERSHIP PER INDUSTRIAL UNION AND TOTAL UNION MEMBERSHIP)

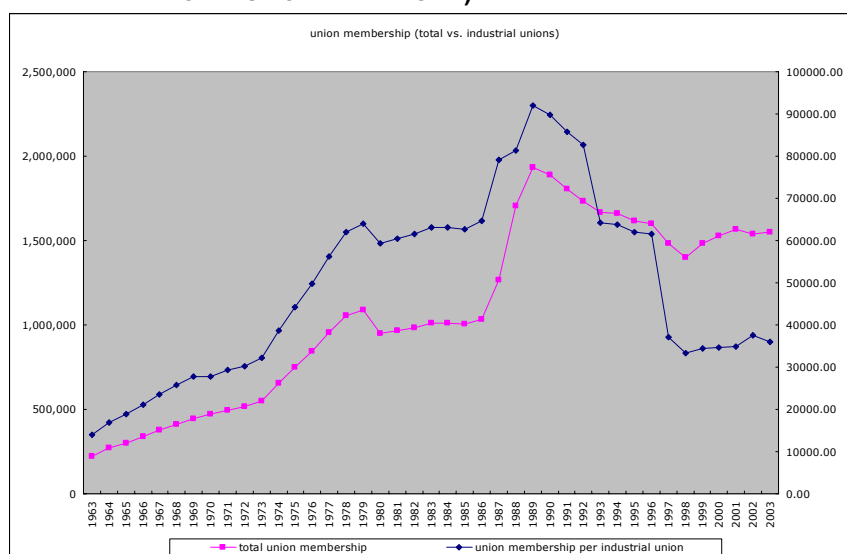
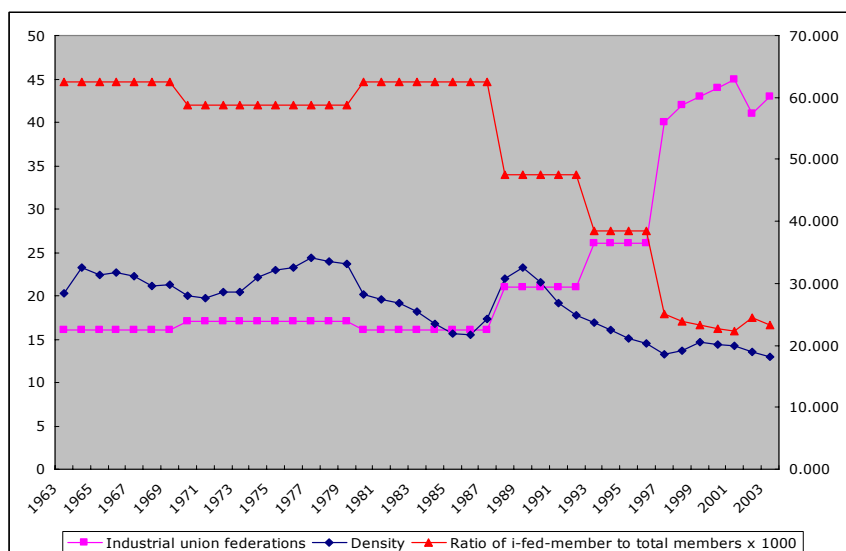


FIGURE 7-11 INDEX FOR BARGAINING CONCENTRATION AND DENSITY

the union density has steadily decreased but the number of industrial federations has continued to increase because new groups have successfully been organized.

The decrease of union concentration accompanied by the decrease of union density have affected on the bargaining activities. The low concentration increases competition among unions over membership. Where union organizing is not well coordinated owing to the lower concentration, resources for organization are often wasted on jurisdictional disputes. Union movements are also less cohesive under lower concentration, so competition among industrial federation for members as well as ideology is more common.

In addition, the lower concentration has been associated with more industrial conflicts because the competition for ideological clearness (*seon-myong-sung*) between union federations at the confederation- and industry-level has brought about increased possibility of those conflicts. The widespread tendency of industrial conflicts due to the absence of coordination between unions was well demonstrated when KCTU and FKTU were involved in the competition. From the overall reviews, we guess that the lower concentration has the negative effect on business

performance and union activities as well as organizing drives.

5. Economic Performance of Bargaining Structure

The relationship between individual measure of union organization, bargaining structure and national economic performance is well documented in many literatures. Freeman shows the relationship between union density and inequality (Freeman, 1996). Similarly, the relationship between centralization of bargaining and economic performance (wage, employment & unemployment, inflation and inequality) has been presented nicely by many political economists (Calmfors and Driffill, 1988; Soskice, 1990; Layard *et al*, 1991; Calmfors, 1993; Traxler *et al*, 1996; OECD, 1997; Western, 1997; Iversen, 1999).

However, those literatures mostly focused on the macro variables (mainly economic growth rates or unemployment rates) at the national level without any consideration of company-level or industry-level performance. This part will capture the relationship between the several measures evaluated above and economic performance of business organization.

5.1 Theoretical model, data and measure

The statistical analysis reported in this section follow an underlying theoretical model that hypothesizes that industrial relations and economic performance are influenced by varieties of factors related to bargaining structure; centralization, concentration and density. In our model the index of bargaining concentration, that is, union monopoly, is utilized to measure the influence of bargaining structure on the economic performance at the firm level because the very limited statistical data set of centralization does not allow the appropriate analysis. More importantly, we consider that the *concentration* of union is more relevant index to evaluate the effect of bargaining structure because the centralization index was not a variable, but a constant in the context of Korea. Thus, the union concentration in Korean is assumed to be a structural

factor of collective bargaining to have an impact on the economic performance.

With regards to the economic performance, variations in the outcomes of the enterprise or industry-level industrial relations practices are expected to influence the economic performance through their effects on productivity, and product quality. Therefore, in our analysis, the economic performance is assessed by the industrial relations practices, especially through the industrial disputes by strike activities. In short, the economic performance of collective bargaining structure will be evaluated by a statistical index of strike activity derived from a time series data set. This implies a simple linear interaction model of the following form:

$$P = a + \sum_i \beta_i x_i + e$$

The data are from archival resources covering over 40 years of the 1963 through 2003. The data are annual statistics of variables measuring the collective bargaining structure (concentration), its economic performance in each year and a few environmental variables affecting industrial relations practices. The overall data set provides a pooled time-series sample of 36 observations for bargaining concentration structure and industrial relations practices. As we mentioned above, the economic performance are measured by the proxy variable of the industrial disputes (strikes). Although it is not exhaustive measures of economic or industrial relations performance, they do cut across key aspects of the collective bargaining outcome.

Furthermore, this section also includes the analysis of the relationships between economic profitability (the value-added) and industrial conflict in the Big 30 chaebol companies in Korea.

5.2 Regression analysis of the impact of *concentration* on economic performance

Pooled time series regressions are estimated with data from the annual statistics after the 1963. Dummy variables (*Year*) are included in

the model to control the *year* effect of 1987, 1988 and 1989 in the strike activities, and the lagged variable (1 year) of dependent variable is also incorporated into the model to control the *time* effect. The results of the least square analysis are reported in Table 7-5.

The first model (A) was estimated with number of industrial federations (concentration at industrial level), number of confederations (concentration at national level), number of enterprise unions, and ratio between industrial membership and total membership, with the dummy variables and a lagged variable of dependent variable. The second model (B) was estimated with the same variables with the model (A) except the number of confederation to test for the effect of concentration at industrial level.

TABLE 7-5 REGRESSION ANALYSIS OF IMPACT OF CONCENTRATION ON INDUSTRIAL DISPUTES

Predictor	Industrial Disputes (A)	Industrial Disputes (B)
Dependent variable lagged one year	0.14(2.50) **	0.15(2.48) **
Year dummy 87	0.86(44.56) ***	0.85(42.55) ***
Year dummy 88	0.30(5.89) ***	0.30(5.58) ***
Year dummy 89	0.30(10.98) ***	0.29(10.35) ***
Number of Industrial Federations	0.05(0.24)	0.28(1.77) *
Number of Unions	0.02(0.31)	0.05(0.90)
Ratio of the IFs Members to Total Members	0.08(0.39)	0.29(1.49)
Number of Confederations	0.07(1.93) *	
Adjusted R-square	0.989	0.988
N	36	36

*, $p < 0.10$, **, $p < 0.05$, ***, $p < 0.01$

In model (A), the parameters of dummy variables of years and the number of confederations (national concentration) are all in the predicted direction and statistically significant over 0.1 levels or better. The substantive effects of year dummy variables are considerable. More importantly, as core estimation, the impact of bargaining structure on the industrial disputes is also statistically significant (at the level of 0.1). As a result, more confederation numbers as a national concentration index is expected to produce more labor disputes at the substantial level. It indicates the likelihood that a small number of national federations will better coordinate the possible internal conflicts through decision-making process. However, unlike our expectation, the number of industrial fed-

erations as the index of industry-level concentration does not support the hypothesis at the significant level in this model.

The association between the industry-level concentration and industrial disputes is statistically significant in the model (B) which is estimated after the removal of the effect of national concentration from model (A). In the model (B), higher concentration at industry-level is associated with lower industrial disputes, and in turn may produce better economic performance. Whenever they are included in the regressions, the year dummy variables are statistically significant at the 1 percent level. This indicates there are a number of unmeasured years' characteristics (structural changes or variations for the period) affecting industrial disputes, and furthermore economic performance.

Is strike activity negative to the economic performance of firms?

The industrial relations practices in the large Korean companies with high bargaining leverage are associated with a certain aspect of firm level economic performance. The relation between strike activities (industrial disputes) and the average rates of *value-added* (firms' economic performance) per person is reported in Figure 7-13 and Figure 7-14 provide the visible evidence of associations between these measures.

According to the observation, the independent effects of strike activities on the *value-added* are substantial. In particular, as Figure 7-14 suggests, the *value-added* of a company rises and falls in sync with changes in the strike activities. When strike activities increase, the value-added decreases and vice versa. Again, the results imply that strike activities (industrial disputes) have a negative effect on the companies' economic performance.

However, there is unusual association among labor cost, which is estimated by worker's income, and unionization rates. Although many scholars and research have expected the wage effect of union, the theoretical hypothesis is rejected in our model estimated by the Big 30 Korean *chaebol* companies.

In the Big 30 Korean *chaebols* after 1990, unionization does not favorable to increase the wage or income of employees. Conversely, the higher unionization rate facilitates the downward adjustment of the wage. We consider there should be some institutional or structural fac-

FIGURE 7-12 PLOT OF INDUSTRIAL DISPUTES AND THE VALUE-ADDED IN THE BIG 30 CHAEBOLS

Strike activities and the value-added in Big 30

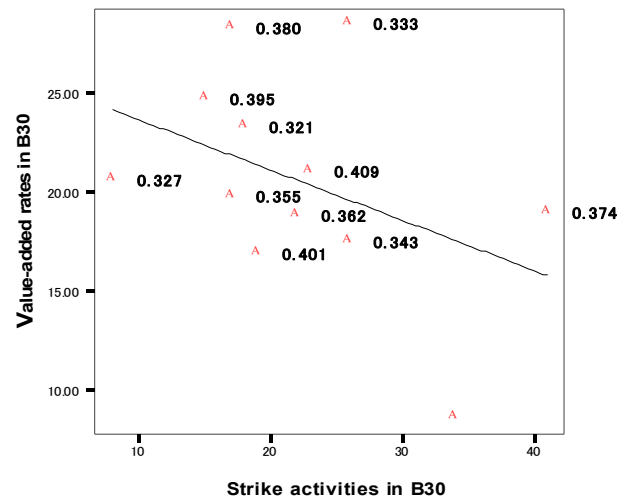


FIGURE 7-13 INDUSTRIAL DISPUTES AND THE VALUE-ADDED IN THE BIG 30 CHAEBOLS

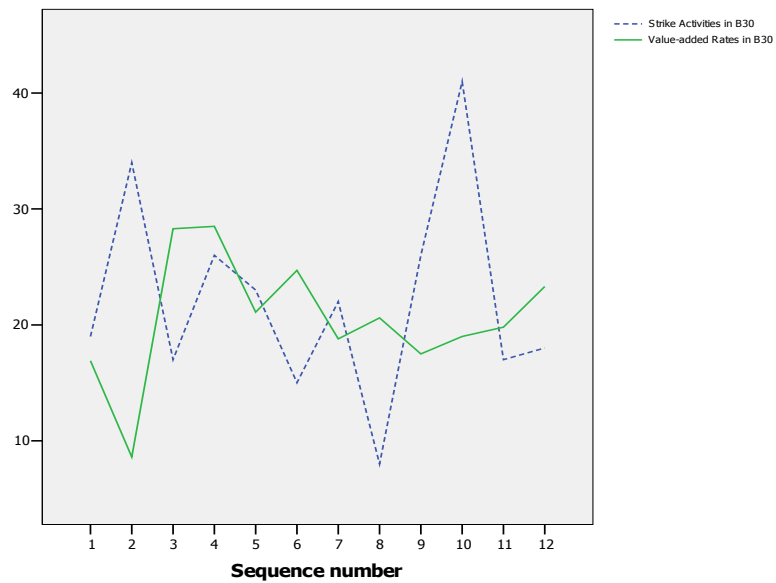
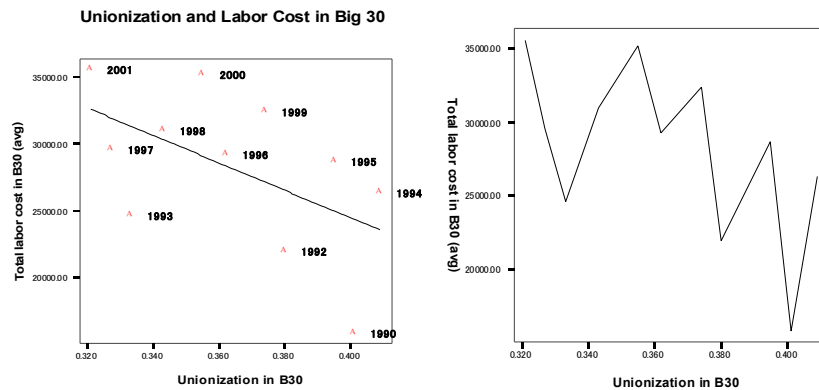


FIGURE 7-14 UNIONIZATION AND LABOR COST

tors to contaminate the union effect on wage, such as 1997 economic crisis and thereafter union wage concession.

5.3 Summary of data analysis

Overall the data provide substantial evidence of an association between the bargaining structure and economic performance estimated by the proxy of strike activities. The regression analysis indicates that the higher union monopoly (*concentration*) at the both level of nation and industry results in the lower industrial conflict which indicates the higher economic performance. This points to the conclusion that where union monopoly is higher, labor unions are able to coordinate their interest conflicts within an organization, and it leads to better economic performance. The impact of strike activities on economic performance comes to be obvious in the investigation of the large Korean firms. The observation from the Big 30 *chaebol* firms suggest that the more frequent strike activities had considerable negative impact on the value-added of companies.

6. Conclusion

This study has examined how unionism and national frameworks

of collective bargaining in Korea have been shaped and transformed in an age of globalization, especially since the economic crisis in 1997. This study has reviewed as a starting point the established theories of unionism and the discussions of collective bargaining structure and its economic performance, and has recognized the decentralization of major collective bargaining structure in almost all advance economies.

Subsequently, we have examined changes in industrial relations along the dimensions of union membership (density statistics); bargaining centralization; union concentration and its economic performance. Our main findings are summarized below.

Union membership as a share of the work force continues to decline since 1989, except the temporary shift-up around 2000. This trend can be qualified in two ways: structural adjustment of industry, such as the increase of service industry, and sharp increase of non-standard workforces. With this general tendency, the unionization of large firms seems to rise and fall in sync with their economic profitability.

With regards to the collective agreement, we consider that the bargaining structure in Korea appears to be in process of downward shift, albeit some literatures contend the movement toward centralization in a few industries. More importantly, continuous deunionization is the substantial symptom of decentralization.

Union concentration at confederal level and industrial federation level has decreased as rival confederation and industrial federations were organized by the democratic unionist groups in 1990s. The decrease of union monopolistic power has been estimated to have a negative impact on the industrial relations outcome and in turn economic performance. Moreover, the changes that have occurred in the unions of large Korean firms indicate the more diversity and fewer common trends in unionism and collective bargaining structure.

Our primary conclusion here is that what is being measured does not indicate the bargaining centralization in Korean industrial relations, but demonstrate the demise of coordination function of union through the downfall of concentration and in turn lower economic performance.

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PART III

CONCLUSION

- 8 Large Firm Industrial Relations at the Crossroads

Chapter 8

Large Firm Industrial Relations at the Crossroads

Sarosh Kuruvilla*

The studies in this volume focus heavily on industrial relations in large firms in Korea. This focus is appropriate, since a significant percentage of Korea's roughly 1.5 million union members are employed in large firms. Unionism is a public sector and large firm phenomena in Korea. While less than 1% of workers in small firms (firms with less than 30 employees) were likely to be unionized, roughly 82% of employees working in large firms (> 500 employees) were likely to be unionized. Further, although large firms account for only 10.2% of the total wage and salary employees in Korea, their share of unionized employment approaches almost 50%. Thus, while overall Korean union density is small (roughly 11%), union density in large firms is much higher. There is also evidence that union members in large firms contribute heavily to union militancy. Firms employing over 300 workers account for only 0.2% of all firms in 2003, but they account for 32% of all strikes that took place in that year. Thus, when we are talking about Korean labor relations, in large part we are essentially talking about labor relations in large companies. Most of the chapters in this volume focus on large firms.

The goal of this chapter is to summarize the arguments and conclusions of each of the seven chapters in this volume. In addition, I will

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also discuss the various themes highlighted in these chapters from the perspective of relevant comparative research. In so doing, I also hope to raise questions for further research and issues where new data might be necessary. Below, I summarize the chapters, and in the section that follows I address important themes and research questions.

1. Chapter Summaries

In the first chapter in this volume, Changwon Lee seeks to understand the rise of militant unionism and confrontational industrial relations in large companies in Korea. This is an important question given that unions are not only concentrated in large companies, but workers in the large companies are the only ones (apart from government employees) that enjoy stable employment conditions and some degree of union power. Changwon Lee first seeks to understand why it is that Korean unionism and industrial relations is enterprise based. He argues that after democratization both large employers and unions made strategic choices in favor of enterprise unionism. Employers chose enterprise unionism because they saw this as likely creating more stability than industrial unionism, while unions also strategically chose an enterprise based structure because they saw this structure as more effective for wage increases. However, he argues that enterprise based unionism did not, in Korea, produce the stable and flexible industrial relations that it has produced in Japan, another country characterized by enterprise level bargaining.

He attributes the rise of confrontation between labor and management to overly politicized strategies undertaken by both parties. Specifically, the owners of large corporations built on their long-standing relationships with government to quell union demands on a range of issues that threatened their ownership and control, while giving in to union wage demands. Unions also followed political strategies (focusing heavily on social issues and government authoritarianism), although these strategies yielded only higher wage increases. This political strategy was chosen primarily by the KCTU (Korean Confederation of Trade

Unions), which was fighting for recognition as a federation, (which it received in the late 1990s only), despite representing a majority of workers in large companies. The increased democratization of the labor movement after 1987 also led to a new generation of leaders who strengthened workplace organizations but used them for larger political purposes, rather than economic unionism. Thus, although the focus was at the political level, the methodology was at the economic level.... increasing wages was a key means of building member support and commitment.

Changwon Lee concludes that the financial crisis of the late 1990s has brought about a change however. Labor has been less militant, and an increasing number of disputes between labor and management have been solved through mutual agreement. Further, the increasing gap between earnings of workers in large firms and smaller firms, brought on by management restructuring efforts after the crisis, has weakened labor generally and strengthened employers. The increasing dual structure of the Korean labor market (workers in large companies enjoying functional flexibility, while workers in small companies are without protection) requires, in Changwon Lee's view, a departure from the current "bargaining" model to a model of social concertation that will encompass the interests of all workers, not just workers in large enterprises represented by unions.

Dae Il Kim, while focusing on the labor market effects of Korean unionism and the decentralized bargaining regime, puts flesh around several of Changwon Lee's conjectures. He specifically examines the effects of unions and bargaining on inequality in the labor market, and asks why collaborative labor relations do not emerge within an enterprise bargaining model, and highlights both the effects of monopolistic product markets and the political dimension of government's role in labor relations. His empirical work provides answers to several important questions. He first seeks to examine employment and inequality effects. He finds that union members are concentrated in large firms, and at the highest end of the blue-collar wage distribution. He shows considerable support for the "spillover" effect, in terms of reducing employment in the union sector and increasing inequality in the non-

union (small and medium sized firms) sector. For example, a 1% increase in the union wage premium reduces union employment share by 1%. Job tenure (and wages) at small and medium sized enterprises is considerably less than the tenure (and wages) in unionized sector.

The spillover effects are exacerbated significantly by a highly concentrated industrial structure with a few monopolistic firms. A small number of large firms have monopoly power in the final goods market and monopsony power in the intermediate goods market through a dense network of subcontractors who are highly dependent on these lead firms. In fact 80% of the sales of small firms are to lead firms, while roughly 40% is to one large monopolistic downstream firm! Thus, small and medium sized firms, which are highly dependent the large firms, also act as an important economic buffer for them. One consequence of this is that the wage and profitability gap between large firms and small and medium sized ones grew in the 1990s. Thus, industry concentration and the monopolistic nature of large firms has permitted unions to be confrontational (more strikes), and win large wage increases (conversely, monopolistic market power has permitted management to “give in” to union wage demands) perpetuating the confrontational relationship.

While industry concentration and union concentration in large firms contribute to overall increases in inequality (in incomes between the union and non-union sector), an important characteristic to remember is that inequality is also evident in terms of job security....there has been a significant increase in temporary employment in both unionized and non union firms. This is partly caused by employment adjustment strategies of firms. According to Dae Il Kim, Employment adjustment, governed by vague redundancy provisions in the 1998 labor standards law, provide considerable voice for unions in negotiating retrenchment (a reason why strikes have increased in the last five years). Hence, firms try to circumvent the problem by hiring more temporary workers (who are invariably not unionized), creating a core-periphery distinction in the labor market.

Thus, there is support for Freeman and Medoff's “monopoly face” of unionism in Korea. High industry concentration ratios and the monopoly power for firms help perpetuate union militancy and rising ine-

quality. Arguably, monopolistic firms technically have the power to withstand union militancy by being willing to face down unions by “taking a strike” (i.e. the market mechanism to create more “responsible” unionism). This has not occurred, according to Dae Il Kim, because government has selectively intervened in the disputes at large firms. Strikes at large firms become a social and political problem for government, necessitating its intervention to limit these problems. Further, Kim suggests that the Tripartite commission, which is composed of labor and management representatives (who incidentally are from the large firms) and the ruling party, which has ties to both groups, has an interest in perpetuating the monopoly position of the firms (especially after structural adjustment which actually increased the monopoly position of several firms). This only entrenches current strategies of large employers and unions—this is the political dimension alluded to by Changwon Lee. Dae Il Kim calls for a change in the role of government. Thus, one implication of Kim’s analysis is that the government must do more to break up the monopoly position of large firms which in the longer run will lead to more collaborative labor relations.

A second development that has the potential to correct the growing inequalities in the labor market is the movement to industrial unionism, a much discussed phenomenon in Korea. However, Kim points out that this has occurred in other sectors that lack competition, such as education (teachers) and nursing (both public sectors dominated). Industrial level unionism has not taken off in the private sector and the refusal of established unions to organize the growing temporary workforce (even in the large firms) is testament to the lack of support (by unions) for the industry bargaining model. This is an important question for further research—why is it that enterprise unions in large firms do not actively support the development of industry-wide bargaining. In sum, Professor Kim would expect that confrontational industrial relations, a large firm phenomenon in Korea, are likely to continue unless the parties change strategies.

Hyorae Cho, in his study, focuses on two important questions. Why do unions choose militant rather than collaborative strategies, and why Korean unions appear to be self-interested, focusing on instrumen-

tal servicing current union members rather than following solidaristic policies that would affect the broader working class. The latter question is particularly puzzling, given that Korean unions did have a broad social and political agenda during the fight against authoritarianism just 15 years ago. Cho terms this combination of instrumental and militant unionism “militant economism”.

In order to explain the rise of this type of unionism, Cho focuses on three explanatory variables, the politics of production, internal union politics, and the changing demographics of large firm workers. His contribution is important in that it adds a new set of explanatory variables to be considered.

By politics of production, Cho is referring to the interaction of three key variables—shopfloor power of labor unions, the strategic orientations of these unions, and the employer’s policies about unionization. Strategic orientations of unions differed on the continuum of an orientation towards solidarity (building a stronger labor movement), an orientation towards re-distribution (economic gain of members) and an orientation towards labor management collaboration. This continuum interacted with employers policies (which were either exclusive (anti-union such as that followed in Hyundai), inclusive (such as that of LG), or non union (e.g. policies of Samsung and Posco). These interactions produced differing patterns of union action, based on whether they occurred under conditions of strong shopfloor power of unions or weak shopfloor power.

Thus, the interaction of these three variables produces a variety of different union actions. In general, where shop-floor power of union was strong and employers followed an exclusive union strategy, unions usually exhibited militancy for solidarity or redistribution, depending on their orientation. However in cases of a more inclusive employer strategy, strong unions either tried to develop an industry-wide bargaining model (if their leadership was solidarity oriented) or followed a union-initiated collaborative partnership model (micro-corporatism) if they were re-distribution oriented. In cases where the shop floor power of unions was weak, an exclusive management strategy resulted in solidarity oriented unions being debilitated or caved in to follow collaborative

modes. Under a more inclusive employer strategy, all unions accepted a weak form of collaboration.

This framework is useful because it can be mapped onto the three distinctive periods of evolution of Korean unions after democratization. During the early years (1989-90) most strong KTUC unions followed the strategy of militant struggles for solidarity in the face of managerial opposition. In a later period 1992-1996, as managers began to introduce new management methods, strong unions became more inwardly focused, concentrating on defense of shop-floor power of union from the offensive of the management, while weak unions typically agreed to collaborate with the management through new less militant leaders being elected by pragmatic workers. When industrial relations gradually become more institutionalized, these trends became stronger, leading to a more pragmatic orientation within large enterprise unions. Where management followed a more inclusive policy, collaborative labor-management relationships evolved (Prof. Cho calls this micro corporatism). Though the initiative of collaboration depended on shop-floor power of the union, both the strong and weak collaboration also made unions more narrowly focused, away from their more solidaristic orientation. The business re-structuring after the Asian financial crisis accelerated these developments, increasing the cleavages between workers in small and larger firms, reducing solidarity, while also weakening large firm unions, which only made them more inward-looking.

Internal union politics also played an important role here in explaining both the transition from solidarism to self interest and the rise of militancy, particularly after the Asian financial crisis. One manifestation of these politics was the division between solidarity focused leaders and more pragmatically focused leaders who concentrated on winning gains for current membership. Given bi-annual elections for union leadership positions, union leaders were increasingly forced to enact militant strategies to satisfy members' needs to maximize wage gains. Militant strategies were also followed given the existence of militant and solidarity focused shop floor activists who were against labor management collaboration on principle. These differences resulted in a gradually growing gap between union leaders who continued to have some focus on

solidarity versus membership who wanted wage gains. Competition between leaders of different orientations only resulted in more militant strategies, because there was an economic payoff to militancy for members. Further, there was considerable factionalism amongst different groups of shop floor militants as well. The divisions between union executives, union delegates and shop floor militants resulted in extreme competition to win workers loyalties, which could be won only through more militant strategies.

The key question here is why is it that a majority of members were so clearly focused on instrumental wage gains. Cho finds the answer in the demographic changes in the workforce of large firms. Simply put, the blue collar workers who were in their 20s during 1987 are in their 30s in the late 1990s, married with children, and part of a growing middle class concerned with maintaining their standard of living and the job security which provided them the capacity to do so. This is evidenced by their increasing willingness to do overtime work. The increasing differences between their incomes and those of workers in small and medium size firms only highlighted the need to preserve their status. Hence the gradual increase in the instrumental focus of union members. It is this instrumental focus that has led to what Cho terms "militant economism" in large firms, when unions were strong enough. Where unions are weaker, this instrumental focus tends to result in more collaboration with management.

The transition of member preferences from solidarity to instrumentality has major implication for union leaders. In net terms, this means that leaders would find it impossible to spend effort and resources to develop industrial unions which could enhance the solidarity project. And this makes union leaders less interested in organizing the growing pool of temporary and unorganized workers (many of whom are employed in large companies). The differing orientations of members and leaders, therefore is an important variable that will profoundly affect the future of large firm unionism in Korea.

Eul-Teo Lee attempts to explain the increase and decreases in the militancy of Korean labor, using the changing human resource management practices in large companies as the key explanatory variable.

Lee attempts, in his study, to develop a model that hypothesizes a causal link between human resources practices and union joining, and union militancy. Given much research on the determinants of militancy found in this volume but not controlled for in the model, in effect, what Lee does is to suggest a strong association between HRM practices and the rise and fall in union militancy during the last two decades in Korea.

Specifically, he suggests that during the period before 1987, when there was government control over the industrial relations sphere, employers followed and a highly limited Tayloristic personnel management approach. After democratization however, workers, seeing the inequity in the HRM approaches of corporations, evidenced by the wage gap between blue and white collar employees, joined unions in large numbers and also resorted to militant strategies to win wage increases. Wage increases were the largest cause of strikes during the late 1980s and early 1990s. However, during the early 1990s and until 1996, union militancy reduced, according to Lee, as a result of a general improvement in working conditions and fringe benefits, more participative HRM in large firms, more selective hiring practices using referral systems to reduce the number of workers prone to militant action, i.e., in other words, due to a more inclusive and caring HR practices in many large companies. However, post the Asian financial crisis, there were several changes in human resource practices. Most significantly, there was an emphasis on workforce reduction, increased contingent employment, pay for performance, result based evaluations, and an increase in profit sharing arrangements (although it is not clear whether all of these practices affected blue collar workers). Professor Lee does not explicitly link these changes in human resource management to a decline or increase in union militancy (the data show a decline in militancy in the early years followed by an increase in militancy in the last few), but argues that employees were less able to express their voice, possibly resulting in strikes.

Soonwon Kwon considers the linkages between corporate governance in large firms and employment relations. Essentially, he distinguishes between American, Japanese and Korean corporate systems, in terms of three dimensions, the structure of ownership, sharing and markets. American corporate governance is characterized by the separation

of ownership and management, with shareholders exerting considerable power in a highly liberalized market environment. Japanese corporations tend to be owned by other Japanese corporations, the interlocking directorates that are characteristic of the Keiretsu system. Korean corporations on the other hand are generally owned by the family and managed by them. Japanese and Korean companies operate in a coordinated market system where firms depend heavily on non-market based relationships to coordinate their endeavors, unlike the American system where firms coordinate their activities via hierarchies and competitive market arrangements. However, Korean firms relate with other firms based on authoritarian direction from the owner-managers, unlike Japanese firms that exercise some discretion in coordinating their activities. In terms of corporate sharing structures as well, the American system, there is a clear separation between management and workforce, and a general exclusion of worker participation in decision making. Japanese systems emphasize a lot more sharing between workers and managers, through various channels. Korea, on the other hand, is more like the US in this regard, and although labor management councils are mandated in Korea, they tend to become the arenas where employee grievances are discussed, rather than information being shared.

The point of Soonwon Kwon's study is to argue that models of corporate governance are (or should be) linked to employment relations features (although his model does not attempt to make predictions). He looks at several measures of corporate governance (concern for business prosperity, stakeholder value orientations, whether there are directors from amongst employees) and several measures of employment relations (internal promotion, long term employment, enterprise unionism, seniority based wages models and firm specific skill systems). Using judgment to assign values to each of these factors (on a continuum of a positive, neutral, or negative extent to which these factors are consistent with the corporate governance model), Kwon finds that there is a high degree of complementarity between corporate governance measures and labor relations characteristics in both the United States and Japan, but not in Korea.

This low complementarity in Korea is responsible for the mutual

antagonism between Korean employers and workers. For example, the monopolistic structure of owner-managed large firms provide greater bargaining power to both employers and employees, resulting in confrontation, a point that also supported by Dae Il Kim's analysis. Strike rates are higher in large firms in Korea. But the authoritarian governance structure of Korean firms does not provide a mechanism for stakeholder influence in sharing mechanisms, leaving workers with very little influence or opportunity to participate in decisions. Furthermore, the authoritarian structure leaves lower level employees (line managers) with very little ability to devise appropriate IR and HR strategies suited to their particular business environments. Finally, given the highly developed "owner-property model of corporate governance, Korean employers tend to view employees as servants who should not participate in decision making as it interferes with "property rights" of the owners.

Although one can argue with the tightness of the linkage between corporate governance models and employment relations used in Kwon's analysis, his analysis adds a new set of independent variables to explaining confrontational employee relations in Korea, i.e., an authoritarian management style that is embedded in an "owner-manager" structure that permits little involvement of the various stakeholders of a firm with the ability to participate in organizational decisions.

Heiwon Kwon and Hyunji Kwon in their study focus on the growth of the "non-standard" workforce in Korea. By nonstandard, the authors mean the growing casual, contract, and temporary labor force in Korea. In seeking to explain the growth of nonstandard work in Korea, the authors resort to case studies of two industries, banking and automobiles. Several firms are examined in both industries. They examine why large firms have increased "nonstandard" work in recent times, union responses to these actions by large firms, and the outcomes the growth in non standard work.

In general, the authors argue that both banking and automobile industries have been under pressure since the early 1990s to reduce costs and increase flexibility. However, the relative importance of these two variables differed for both industries, and the pace at which restructuring occurred varied, showing a significant increase after the fi-

nancial crisis, and that union responses to restructuring also varied across industry and across time.

Kwon and Kwon show that in the case of the automobile industry, the need for flexibility was paramount. Although employers were trying to promote flexibility since the early 1990s, these were resisted by the unions, and the process of re-structuring was quite slow. The financial crisis brought about a “critical juncture” —the conditions under which employers were able to pursue their flexibility enhancing agenda. Given the crisis, unions faced a decline in bargaining power and were less able to resist. Second, as part of the “grand tripartite compromise” in 1998, employers were formally granted the right to retrench workers, though they had to negotiate these with the union. As firms found it difficult to layoff in the face of union opposition, they began to hire contract workers (on site contracting) to obtain their flexibility goals. The unions in the auto industries, focused as they were on protecting the jobs of their existing members, agreed that the company could hire contract workers. Hence, the incidence of on site contracting increased rapidly post the financial crisis, and in one of the firms studied stood at 27.5% of production workers. Kwon and Kwon argue that the employer’s strategy of hiring contract workers was also to some degree motivated by their desire to break union power. Thus, in agreeing to let employers hire temps, the unions have clearly made a Faustian bargain.

In the banking industry, on the other hand, the cost issue was more important than the need for flexibility in driving work re-structuring decisions. Much of the restructuring efforts in banks was precipitated by the financial crisis, which hurt the banks acutely, prompting a drive to drastically reduce costs immediately—almost all of the layoffs in the industry took place between 1997-1999. Those laid off were replaced by temporary employees (partly to meet manning requirements mandated by financial supervisory commission), and partly to create a more flexible work organization. The percentage of temporary employees in the six banking companies in 2002 varied from 14% to 35%. The position of the banking unions is also curious in this regard—they represent only permanent workers, and hence don’t worry too much about the temps, although some banking unions have negotiated limits to the number of

temporary workers their bank is can hire. There is relatively little effort on organizing the temporary workforce in the banks.

Whether the need for flexibility or the need to costs was more or less important in different industries, what is clear is that they are highly inter-related. And Kwon and Kwon argue that in general terms employers have succeeded in “destroying and re-creating” internal labor markets in the two industries. The net result has been to create what Kwon and Kwon call a “multi-tiered segmentation” in the labor market, with the segmentation more varied in the auto industry. Kwon and Kwon also address the different modes of nonstandard work, but that question is less germane to the main issue of why non standard work is increasing.

Of course, the effect of these arrangements has also widened the income differentials across segments. In the auto industry, one company data suggests that contract workers earn about 61% of the earnings of regular workers with the same tenure, and only 41% of the average regular worker salary, despite doing very similar jobs. In the banking industry, temporary employees earn about 55% less than their regular counterparts, and there is also a gender story here as a majority of temporary workforce in the banking industry is female. Clearly therefore, these case studies show a fundamental departure from the “lifetime” employment model that was so prevalent in these two industries in Korea.

Soonwon Kwon and Harry Katz examine several different issues. First they look at union density and the changes over time, concluding that the decline in unionization is closely linked to the decline of the manufacturing sector, increases in the service sector, and the increases in contingent employment, particularly of women. They do however, note that unionization in large firms (the key focus of this book) remained surprisingly steady even under the Asian financial crisis, fluctuating between 30% and 40%, and these variations appear to be associated with firm business cycle issues.

As regards bargaining structure, Kwon and Katz provide a more pessimistic view of the frequently mentioned argument that bargaining structure is actually “recentralizing” at the industry level. There is some progress towards industry level bargaining, to be sure, but this has happened only in the Health and metal working sector. Moreover further

progress is likely to be very slow as Korean employers are poorly organized, and are opposed to industry level bargaining. Even in the metal working industry, several big enterprise unions where decision making power is located have not yet relinquished bargaining rights to industrial union counterparts. Further, they argue that the evidence actually supports increased decentralization. One bit of evidence is the decline in unions, a second is the changes in collective bargaining outcomes (which clearly suggest much higher employer bargaining power), a third is increased diversification of corporate structure coupled with an enterprise based unions who will not join industry federations.

Kwon and Katz also argue that lower concentration ratios (i.e. an absence of agreement or a high degree of competition between union federations) increases conflict, negatively affecting union organizing as well as a business performance. Notably, union militancy significantly impacts firm business performance (based on a measure of value-added

TABLE 8-1 SUMMARY CHAPTER FOCUS AND FINDINGS

Chapter	Dependant Variable	Explanatory Vars
Lee	Trajectory of Industrial Relations in Large Firms.	Overly Political strategies of both unions and employers; the Asian financial crisis; earnings gaps between regular and temporary workers;
Kim	Labor Market Effects of Large firm Unionism: Militancy, Inequality, confrontational labor relations	Concentrated industrial structure with monopolistic firms; union concentration in large firms; employment adjustment strategies of firms; tripartite commission.
Cho	Why are unions in large firms militant? Why are they instrumentally focused rather than solidarity focused?	The politics of production; internal union politics; and the changing demographics of large firm workers;
Lee	Increases and decreases in union militancy	Human resource strategies of firms.
Kwon	Antagonism between Management and Labor	Low degree of complementarity between corporate governance and HR strategies; Monopolistic structure of Korean firms; Authoritarian Managerial styles;
Kwon and Kwon	Reasons for growth of 'nonstandard' employment in large firms; Union Responses to growth of non standard employment; labor market effects of on standard employment.	Flexibility and cost reduction, where flexibility was a greater imperative in auto industry, while cost reduction more important in banking industry; instrumental focus of enterprise unions;
Kwon and Katz	Changes in Union density, Bargaining structure and union militancy	Structural change in the Korean economy. decline in manufacturing, rise in services and rise of contingent employment; Low Union concentration ratios;

in the top 30 chaebols.

My purpose above was to provide short summaries of the arguments in each of the chapters, essentially to acquaint the reader with the range of this book, and especially the variety of dependant variables that have been examined by the authors. Thus, the reader must go to the chapter for more specific detail. Table 8-1 provides a pictographic summary of the dependent and independent variables in the chapters.

In the next section, I take a thematic approach, focusing on several themes in these chapters, and make an attempt to condense or distill the lessons that we gain from these chapters on these important research questions. While I will take a “issue-by-issue” approach here, I will discuss each issue in terms of comparative (non-Korean evidence), as well as the outlining future research questions that are raised by the author’s analysis.

2. Thematic Issues

2.1 Unions in Large Firms

A key theme that is implicit in most chapters is that Korean unionism is concentrated in large firms. Dae-Il Kim provides evidence that large firms are more likely to have unionized employees (in manufacturing, in 2003, 79.2% of workers in large firms were likely to be in unionized firms; large firms, while accounting for only 10% of total wage and salaried workers, accounted for 50% of union sector employment). An important question for future research is to obtain more direct and precise data on unionization by firm size, rather than inferring it the way Dae Il Kim does.

Is the concentration of unions in large firms a uniquely Korean phenomenon? My survey of the literature indicates otherwise...Korea is similar to most countries in this respect. Evidence from the US suggests that larger plants tend to exhibit a significantly higher incidence of unionization than small plants while larger plants are more likely to be the target of union organizing drives (Davis and Haltiwanger, NBER, 1995).

Evidence from Germany and Canada suggest a pattern that is quite similar to that of Korea. In most other countries as well, unionism tends to be concentrated in large firms. In Japan, which has an industrial structure that is more similar to Korea, the union density in firms employing more than 1000 employees is 54.8%, while firms employing between 100 and 999 employees are characterized by a union density of only 16.8% (Suzuki, 2004). Thus, in this respect, Korea is certainly not unusual. What is more unusual about Korea is the nature of large firm unionism and specifically, the issue of union militancy.

TABLE 8-2 ESTABLISHMENT SIZE AND UNIONIZATION

Firm Size	Percent Union: Germany (1986)	Firm Size	Percent Union: Canada (2002)	Firm Size	Percent Union Japan, 2004
1-10 ees	5	<20 ees	7	< 99	1.3%
11-100	23	20-99	19	100-999	16.8%
101-500	42	100-499	36	>1000	54.8%
501-2000	52	> 599	46		
2000+	58				

2.2 Militancy and confrontational industrial relations

At this point in time, from a comparative perspective, Korean unions appear more militant than the unions in other OECD countries. Kim's study presents a table on comparative mandays lost due to strikes in the UK, US, Germany, Sweden, and Japan in the years 200-2002, and finds that Korea tops the list. Most interestingly, Korea also differs from its OCED counterparts, and from most countries in the world, in terms of the trend regarding the number of strikes. Whereas the number of strikes in most parts of the world shows a steady decline in the 2000-2005 period, Korea shows a marked increase (Kim's data shows that the strike frequency has been increasing steadily since 1998). Thus, understanding the causes of militancy (as expressed by strikes) is an important policy issue.

Several authors in this volume address the issue of militancy and confrontational industrial relations. Aside from policy implications, the question is important from a theoretical standpoint as well. Why is it that Korean industrial relations, which like Japan, has its center of grav-

ity at the enterprise level, does not exhibit the level of industrial peace and collaboration that is characteristic of Japan? Despite the similarity with Japan regarding this aspect of bargaining structure, Korea tends to exhibit the confrontation that is characteristic of another country with a decentralized bargaining regime, i.e., USA. Thus, where decentralized bargaining regimes produce conflict (USA) and cooperation (Japan), we have to understand why Korean IR should evidence conflict rather than collaboration.

The authors in this volume advance a large number of explanations for Korean militancy. Changwon Lee attributes militancy to the overly political strategies undertaken by both unions and employers. Employers went to the government to solve their problems, while unions, particularly the more militant KCTU also focused on political strategies to gain recognition, although these strategies invariably resulted in higher wage increases for their members. In Changwon Lee's view, both employers and unions did not invest heavily in promoting a bilateral relationship. Dae Il Kim holds that the monopoly position of large firms permits them to essentially "reward" militancy through higher wage increases, since prices could be passed on to the consumer. While this may, at best, be a facilitating condition explaining union militancy, it supports Changwon Lee's view that employers were willing to "buy off" unions with higher wage increases rather than "take a stand" that might, in the longer term build a collaborative relationship. Kim further argues that the willingness of government to intervene (selectively) in strikes and disputes at large firms also hindered the development of a more bilateral problem solving approach.

Cho argues that militancy is a function of several variables. The first is what he terms the politics of production,.....unions turned to militant strategies when they were strong at the shop-floor and were faced with an opposition by the employers (this is similar to Eul-Teo Lee's point about the importance of HR strategies). The second key variable Cho refers to is internal union politics...the competition between different types of union leaders and activists, where militancy was one method of obtaining member loyalty.

It is important to highlight the temporal dimension, i.e., it is possi-

ble that the causes of militancy have changed over time. Early militancy (during 1987-1990) is well explained....a function of the new found freedom to organize and bargain, followed by the militant struggles of the KCTU for legitimacy. Militancy declined in the mid 1990s, in the face of both new managerial strategies (both Cho and Lee refer to these) that resulted in unions (notably the weaker ones) and employers in some companies pursuing collaborative strategies. However there has been an increase in union militancy since 1998, after the Asian financial crisis. It is this aspect of militancy that is relatively more difficult to explain.

A partial explanation for this late spurt in militancy is provided by Cho's variables of intra union politics and his third explanatory variable, (that of the changing demographics of union members in large companies, who as they grow older and have limited labor market mobility are far more concerned with their job security, which has been threatened by re-structuring strategies of employees) suggests that they are more willing to adopt militant strategies (especially when they have shop floor power). An alternative explanation for late militancy is advanced by Dae Il Kim, who argues that employment adjustment (governed by vague retrenchment provisions in the 1998 tripartite agreement) provide considerable voice for unions in negotiating retrenchment, which they are resisting (a reason why strikes have increased in the last five years). Thus, while Cho points to a "bottom up" push factor (internal union demographics and politics), Kim points to an institutional explanation, that the tripartite agreement provided unions with an institutional basis for militant reaction.

It is possible that both explanations work in tandem (interactively), but this is an important area that merits considerably more research. It is the scholar's task to disentangle these interactions. Several research questions are pertinent here. Does the latest spurt in union militancy represent a "last stand" by unions weakened by re-structuring after the financial crisis? Or is this militancy a function of internal union politics that Cho refers to? What is likely to happen if employers now take the offensive? During the mid 1990s Cho suggests that strong unions were militant while weak unions capitulated or collaborated. After the Asian financial crisis, even some of those strong unions have become weaker.

Given the freedom of employers to retrench, and the growth in the nonstandard workforce (which many unions in large firms themselves permitted), is the recent spurt in strikes evidence of a weakened labor movement fighting with its backs to the wall? What is the logical next step for large employers who have already managed to divide labor within their firms by growing the non standard workforce? Current and future research in large firms must address these issues.

Yet another issue worth considering in any explanation of strikes is the presence and effectiveness of dispute resolution methods, and other institutions that channel conflict in different ways, rather than strikes. It is possible that under the various reforms and changes in Korean industrial relations since 1987, dispute resolution mechanisms have not been institutionalized at both firm level and third party level. Given effective alternatives, strikes may not be preferred all the time. More research needs to be done here.

2.3 Employer flexibility strategies & the rise of the nonstandard workforce

Kwon and Kwon highlight the strategies of employers in autos and banking in re-structuring and hiring temporary and contract workers. They highlight both cost pressures and the need for increased internal labor market flexibility as driving employer decisions, although Kwon and Kwon talk about the added imperative of breaking union power as well. Dae Il Kim adds a perspective here to explain the rise of temporary and contract employment as the dominant employment adjustment strategies used by employers. His argument is that employers began to use temporary and contract workers when they encountered resistance from unions to layoffs. Basically as Dae Il Kim notes in his study, "Employment adjustment, governed by vague redundancy provisions in the 1998 labor standards law, provide considerable voice for unions in negotiating retrenchment" Since union resistance on layoffs in large firms lead to militancy, employers responded by resorting to contractual employees. Unions, as Kwon & Kwon and Cho note, wanting to protect their core membership, agreed to allow employers to hire contract labor.

In this arena as well, Korea is by no means unique. In both the United States and Japan, contingent employment has been increasing, as employers strive for numerical flexibility. Prior to 1998, large Korean firms followed *de facto* lifetime employment policies similar to those of large Japanese companies, though lifetime employment was never as deeply institutionalized in Korean society as it has been in Japan. In Japan as well, the decade of the 1990s saw a decline in lifetime employment and firms found flexibility by hiring part-timers and contract workers. Just as the tripartite commission agreement in 1998 formally permitted layoffs in Korea, a 2003 law permitted a contractual employment term to last three years in Japan. Kwon and Kwon note that the non standard workforce in Korea is close to 50% of total population. Data from Japan show that the nonstandard workforce in Japan increased from 18.8% in 1990 to 30% in 2004 (Economist, 8th October 2005). While many large Korean firms thus evidence a “double breasted” employment approach of a core workforce with union representation and job security along with temporary and contract labor, similar patterns are evidenced in Japan. A recent interview with Fujio Mitarai, the President of Canon (reported in the Economist) notes that Canon maintains lifetime employment terms for its “core” workers, but they account for only 30% of the company’s total workforce. The balance 70% is temporary, whereas, in 1992, only 10% was temporary.

The labor market effects of such employment adjustment mechanisms are also similar in Korea and Japan. Kwon and Kwon show that a temporary worker in the banking industry earns as little as 41% of the average “core” worker’s salary, while on average temporary and part-time workers in Japan earn roughly half of a fulltime workers salary (Economist, October 8 2005).

Thus the development of the core-periphery model of employment within large corporations appears consistent with evidence of the impact of globalization and increased competition through out the world. While the core-periphery distinction is growing in almost every country, to be sure, it has grown much faster in Korea. In Western Europe, industrial relations institutions (notably strong unions) and legislation have stemmed the growth, while it is not clear what institutions are evolving

in Korea that could have a similar impact. Korean unions in large firms, the one institution that could be a very important bulwark against further fragmentation of the strong internal labor markets, appear to have abdicated their responsibility by negotiating agreements permitting the growth of the nonstandard workforce.

It is important for future research to explain the faster growth of this phenomenon in Korea. On the one hand, Dae Il Kim tells us that large firms are generally monopolies, which is why they are willing to give in to wage demands of workers. On the other hand, the same large firms are aggressively forcing flexibilization in the internal labor market. If the monopoly power permits them to pass on costs to consumers as well as suppliers and subcontractors, why would they follow this seemingly contradictory strategy? One explanation in these chapters is that large firms are hedging their bets and preparing for the future by attempting to create a generally flexible internal labor market (a point made by Kwon and Kwon as well as Kim). But we need more understanding of large firm human resource strategies (not practices) here, another important area for future research. Most importantly, there is need for research on the variations in large firm HR and LR strategies and practices.

2.4 Corporate governance and ownership structure

Two authors deal with the issue of corporate governance and ownership structure and their connection with labor relations patterns and union militancy, although they address these issues very differently. Kim's argument is relatively simple, which is that the large firms in Korea tend to have monopoly power in the product market and monopsony power in the intermediate goods market. Thus, subcontractors and suppliers, who are in highly dependent relationships with the large (lead) firms, tend to bear the brunt of downturns, so this allows lead firms to 'give in' to militant union demands. Kim's policy recommendation here is to whittle down the monopoly power of large firms through government regulation. Deprived of their monopoly power, large firms may decide to develop meaningful relationships with their unions, al-

though it does not directly follow that they will.

Soonwon Kwon argues that the low level of complementarity between corporate governance and employment relations explains the antagonistic pattern of labor relations in large firms in Korea. While Kwon apparently agrees with Kim that the monopolistic structure of large firms (and their large unions) promotes confrontation, he goes considerably further to highlight the importance of the authoritarian governance style of Korean firms. Basically, this authoritarian governance style stems from the fact that large Korean firms tend to be managed by owners rather than professional managers, compared to US, Japanese and German corporations. As a result, Korean firms tend to have low “sharing structures” where stakeholders (both shareholders and employees) have very little voice in decision making. For example, despite the legal requirement of parallel workplace organizations such as labor management councils, these are not permitted by owners to be vehicles of significant employee “voice”. Further, Kwon argues that the authoritarian owner managerial style does not permit the delegation of authority with regard to labor relations to line managers. Thus, line managers do not have the freedom to develop appropriate IR and HR strategies. And workers tend to be treated like servants rather than stakeholders.

The implication here is that barring a drastic change in corporate governance structures that separate ownership from management, there will be little opportunity for stakeholders to have their voice heard, and little opportunity for the “professionalization” of labor relations management in these large firms. Such “professionalization”, which involves the separation of ownership from management, could result in the evolution of more collaborative (and participative) managerial styles.

An important research question that is relevant here is to more tightly forge the link between corporate governance and employment relations. There are for example examples of large firms with more collaborative labor relations. Can the difference between collaborative LR strategies and confrontational LR strategies be explained by ownership structure? Case studies of such firms would be of use here in providing support to Kwon’s argument. We know from these chapters that several variables do explain the lack of collaboration between large employers and unions, so the added explanatory power of Kwon’s corporate gov-

ernance variables need to be addressed. And, we need more research on why the LR strategies of large firms differ. Cho clearly argues that large firms have followed either exclusionary or inclusionary policies with regard to their unions.

A second implication of Kwon's argument is the apparent need for training of senior management in labor relations, and perhaps also in interest-based bargaining for the future development of collaborative labor relations. It appears that the concentration of managerial authority in the hands of owners is a serious obstacle to the professionalization of the labor relations function in large Korean firms (although not all large Korean firms).

In the corporate governance realm, Korea is not unique. There have been pressures for changes in corporate governance all over Asia after the Asian financial crisis. The most notable changes have occurred in Japan. Several new laws governing financial reform have strengthened transparency and increased shareholder activism, while there has been a consolidation in several industries. Similar reforms have taken place in Korea although to a lesser extent...again, more research on Korea may be relevant here. In Japan, the Fair Trade Commission, which regulates monopolies has become more powerful, reporting directly to the cabinet and amendments to the anti-trust laws are contemplated in 2006. The Japanese efforts have resulted in greater shareholder activism and a more transparent corporate structure—for example, the Economist reports that in 1992, 46% of all listed equities were held as cross-shareholdings by related companies. By 2004, this figure had reduced to 24%. An important research question is to examine the extent of changes in corporate governance in Korea after 1997 and to examine whether there are changes in the monopolistic position of large firms. One hypothesis suggested by Kim is that after some consolidation post the financial crisis, the large firms have seen increases in their monopoly power rather than decreases!

2.5 Union strategies

One of the most important themes arising from this volume is un-

ion strategy and how it has changed over time. Cho perhaps focuses on this issue the most, since he seeks to explain why large firm unions follow militant strategies and also why large firm unions do not adopt more solidaristic strategies that will enhance their strength. While Cho bemoans the narrow and self interested strategies adopted by unions, Kwon and Kwon highlight the unusual “faustian” bargain large company unions have made their employers—i.e., permitting the growth of a non standard workforce within the company that will only serve to undercut their strength! On the face of it, it would appear that the self interested strategy that large firm unions are following is a self-destructing strategy as well. Clearly, there is much going on here that we must seek to understand. Cho provides some clarity by focusing on the interaction of production politics, internal union politics and union member demographics that have driven unions away from a solidaristic orientation to a more self interested instrumental focus. While his analysis sheds considerable light, there are many questions here that will provide additional depth to his analysis. And there are many areas in which we would need additional information. In general, we need to get more information on a range of union related issues, such as structure, leadership, membership distribution, and the strategy formulation process in unions (to build on Cho’s analysis).

First, there is need for some research on FKTU-KCTU differences. Many authors have argued that the most militant large company unions are affiliated to the KCTU. However, the chapters in this volume do not make distinctions between the two federations. There have been for example notable differences in the FKTU and KCTU’s willingness to participate in the tripartite commission, (although of late, their positions appear to be converging). More studies on inter-union politics and differences would be illuminating.

In addition the structure of their membership might reveal something about differences in union strategy. KCTU for example also has a sizeable number of blue collar unions in small and medium sized firms and a sizeable number of white collar unions affiliated to it. These unions have been less militant, and as Lim (20002) argues, these unions have been moderate, supporting KCTU’s participation in the tripartite

agreement. What is not known, however, is what proportion of KCTU membership is controlled by these unions. Lim (2002) does provide some comparative data for 1996, but much has changed since then. In 1996, public sector unions accounted for 22.6% of KCTU's membership, while private sector manufacturing and private sector non-manufacturing accounted for 48.1% and 27.5% respectively. The FKIU reported similar membership composition for the same year, with public sector unions accounting for 27.5%, private sector manufacturing for 49.6% and private sector non-manufacturing at 22.6%. How these have changed over the last 10 years would be highly relevant to any discussion of current and future union strategies.

A second key research question must focus more on the internal politics of unions. We need to understand the different groups within the federations and within large enterprise unions. We know from Cho's study that there are some groups within large company unions who are solidarity focused, while others are more instrumentally focused. We also know that there are moderates and militants. What accounts for these differences? What are the characteristics of militant activists and the moderates? Why do they become so? What drives their activities? Cho specifically attributes an independent effect of union leader and activist groups on union strategy (in addition to the bottom up push of changing worker demographics). What are the determinants of the variations in thinking and strategy formulation amongst leader and activist subgroups? Why do some leaders pursue collaboration whereas others pursue confrontation within the same company? On another front, how do plant-level leaders (and activists) differ from national level federation leaders in how they think about union organizing strategies? Thus, more detailed studies on intra-union politics and internal union strategy formulation processes are also necessary.

Similarly, there are additional research needs in union organizing strategies. In large companies, the chapters highlight the fact that unions entered into a bargain with employers to allow the hiring of non standard workers. In some cases (especially banking) Kwon and Kwon show that they set limits on the number of non standard employees to be hired. But in general, several chapters in this volume suggest that the

unions have made little or no effort to organize the non standard workers. This is consistent with Cho's argument that large company unions have an instrumental rather than solidaristic focus. This is a particularly puzzling and curious "strategic" policy of Korean unions.

Labor movements all over the world are now focusing on increased organizing as they are faced with declining membership levels. See a description of the responses of Asian unions in this regard in Kuruvilla et al (2002). Japan is particularly relevant here, given the similarity of institutional conditions and post 1987 crisis responses. Like in Korea, Japanese unions have only recently stated organizing part time workers. However, in Japan, much of the organizing is done by industrial unions. And there are as Suzuki (2004) notes, many differences in the organizing strategies of different industrial unions, and particularly many differences in organizing outcomes as well. Suzuki (2004) suggests several different explanations for the variation in organizing strategies (and effectiveness) of different industrial federations. He argues first that those federations that are dominated by enterprise unions (e.g., confederation of Japanese auto workers) tend to follow a "partnership" model in organizing part time workers. Such a "partnership" model implies that the unions will seek management's consent to organize the employer's workforce. On the other hand, federations with a relatively large number of unions in the small and medium firm sectors such as textiles and clothing tend to be far more aggressive in organizing, following what Hurd and others have referred to as an "organizing" model of union organizing. Suzuki also finds that those industry federations that are strong, more centrally managed, and which receive a larger share of resources from their associated enterprise unions, tend to be far more effective at organizing and increasing union membership. But like in Korea, in most federations, authority and control over resources are concentrated at the level of enterprise unions.

One way in which current enterprise union strategy in Korea may be similar to those of enterprise unions in Japan is the fact that they do relatively little to organize part-time workers and non regular workers based in the same enterprise. Suzuki suggests that in Japan it is unrealistic to expect Japanese enterprise unions to organize non standard workers within the same enterprise. However, since industry unions are just

emerging in Korea, I wonder whether some of the lessons of the Japanese experience are relevant to Korea.

A key question for research is how likely is it that the industry union model will become stronger and be more popular in Korea? Kim, in his study, suggests that industrial unionism is most developed in the public sector (e.g., education and health care) where employer aggression and union militancy is relatively low. It would appear that Korean enterprise unions in the private sector are not yet interested in supporting the growth of industry level unions in their different sectors. Although Cho explains this by the absence of a “solidaristic” focus on the part of enterprise unions, it is not clear as to whether there are other factors that impinge on their ability to develop and strengthen industry federations (for example, employer opposition).

It is clear to me that Korean unions in the private sector are really at a critical juncture. On the one hand, they are declining in number. On the other hand, the non standard workforce is growing. Yet, they do very little to organize that non standard workforce, even within the enterprise. One way to organize non standard workers and increase union density and power is via industrial unionism, but there is little support for that amongst enterprise unions. One question is whether there is variation across unions in this regard. It is important that future research look at the differences between KTUC and FKTU with regard to these issues, but ALSO at the variations amongst enterprise unions in terms of how they see the strategic future. It may be that within those variations, there is scope for hope. If not, it would appear that Korean unions may be at a “tipping point” where their current strategic inaction may result in their precipitous decline in the future.

3. Conclusion

This volume consists of a series of chapters on large firm industrial relations in Korea. The authors of the various chapters provide many different explanations for phenomena relating to large firm industrial relations. In this concluding chapter, I have attempted to discuss these explanations and phenomena in a more comparative context, while rais-

ing questions for future research. As I suggest, there are many areas in which future research might illuminate the variety of themes such as union militancy, union strategy, growth of the non standardized workforce, and employer strategies. What is missing from this book is a focus on government strategies and how government's approach to labor regulation could be partly responsible for some of the outcomes that we see. In this connection Song's (1999) analysis of government policy during the Kim Young Sam regime is particular interesting. An analysis of the effects of government policy, and tripartite commission agreements might add yet to our growing list of independent variables. In sum, the chapters provide convincing explanations for important phenomena, but also raise a large number of questions for future research. There are enough questions here for several more chapters on large firm industrial relations in Korea!

It is also clear from these chapters that large firm industrial relations appear to be at yet another cross-road! Although employer strategy after the Asian financial crisis appears to be clearly focused on the destruction of the strong internal labor market model (at which they seem to be successful), the response from both unions and government is relatively unclear. These responses, if they are well considered, could yet shape the contours of Korean industrial relations and push it down a different path towards more stability.

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