

AN ISSUE ON HUMAN RESOURCE MANAGEMENT IN KOREAN COMPANIES: EARLY RETIREMENT PROGRAM

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Introduction

The Korean ERP has become a prevalent issue in the 1990s in relations between management and labor regarding employment and social stability. While management strategy aims to create a flexible labor market through the ERP, the labor force is experiencing great fear of large-scale layoffs and a decreasing workforce (Choi, 1996b, Atkinson, 1985). Additionally, arguments concerning the pros and cons of the legislation of redundancy (workforce reduction) arising from recent revision of labor laws have become a major issue in discussions between management and labor.

The 1990s find the business environment for Korean enterprises rapidly changing, both within the business and without. The field of human resource management is not immune from the threats, and has faced harsh new challenges. Many enterprises have recognized that they are no longer exempt from such problems as the aging of the workforce, high wages, stagnated promotion, low labor productivity, low working morale, low level of loyalty to organizations, and an increase in the number of redundant workers. As a consequence, they are trying drastic innovations in human resource management in order to cope with the problems. Companies are shifting away from existing human resource management systems based on seniority to merit based systems. The measures taken are bottom-up evaluation systems, separate operation of ranks and positions, promotion by selection, unified pay steps, job ability wages, and the internship system.

The Korean ERP is one human resource management program that has been adopted by a wide number of Korean companies in the 1990s. The program is referred to by several other names by different companies: the voluntary retirement program, the honorary retirement program, and the optional retirement program. A survey conducted by the Korea Employers Federation showed that a third of Korean companies with more than 1,000 workers had adopted the program by the end of 1995 (Kim, 1996). Many small and medium-sized companies are seriously considering following the trend, in order to help erode human resource management problems and increase efficiency.

This study deals with the long-term employment plans and the seniority-based management that have enjoyed a long history in Korean companies. The current status and characteristics of the Korean ERP are analyzed, regarding the program as an employment practice for workforce reduction. Recommendations are also made for its improvement. Based on this analysis, suggestions to improve the ERP are presented.

Characteristics of Korean employment practices

Korean employment practice has been based on a long-term employment plan. Long-term employment plans are suitable to economies with high economic growth rates and low wages. However, the changing business environment of low growth and high wages requires flexible employment plans that are based on developing skills. Korean employment practices can be characterized as including long-term employment with rigid layoff practices and policies that are based upon seniority, which ultimately effect the wage level and justify the promotion.

Rigid layoff and long-term employment

Korean employees generally have a tendency not to have job identity but rather an organization identity. That is, business identity assigned by the worker's organization that is more recognized than the job identity would be, and which offers pride by occupation. Organization identity is a strong characteristic of the Korean labor market. The Korean labor market can be seen as a vertical market from econo-technological perspective and a traditional labor market from socio-cultural perspective. A vertical labor market is one with an imbalance of technology and limitations on labor mobility to employ assigned labor for a long term. And the traditional labor market arising from a Confucian and family based culture prohibit employees from formulating rational job identity consciousness.

Long-term employment practice has been in place for a long time, however, with rigid layoff procedures prohibiting a systematic outflow of employees. Furthermore, the mechanism of long-term employment has been strengthened in that employees have "assignment feelings" to their organizations that constitute more than their jobs. Hence, a loyalty is cultured both inside the company and outside. The rigid layoff-system from an institutional perspective and business identity consciousness from a psychological perspective have contributed to a long-term employment practice. The long-term employment has limitations as follows.

Without flexible employment, the atmosphere of an organization cannot be renewed. The introduction of new techniques of management is not promoted or redundant workforce removed. Long service may impede the performance of an organization where the nature of work requires a high level of attention and the pace of technology development is very fast. Long-term employment also does not leave room for flexibility in regards to human resource management. Separation in the high ranks creates opportunities for promotion, and also provides opportunities for horizontal movement that enables the relocation of human resources. Henceforth, individual workers can seek better treatment and working conditions through shifting to other companies elsewhere by moving of their own will.

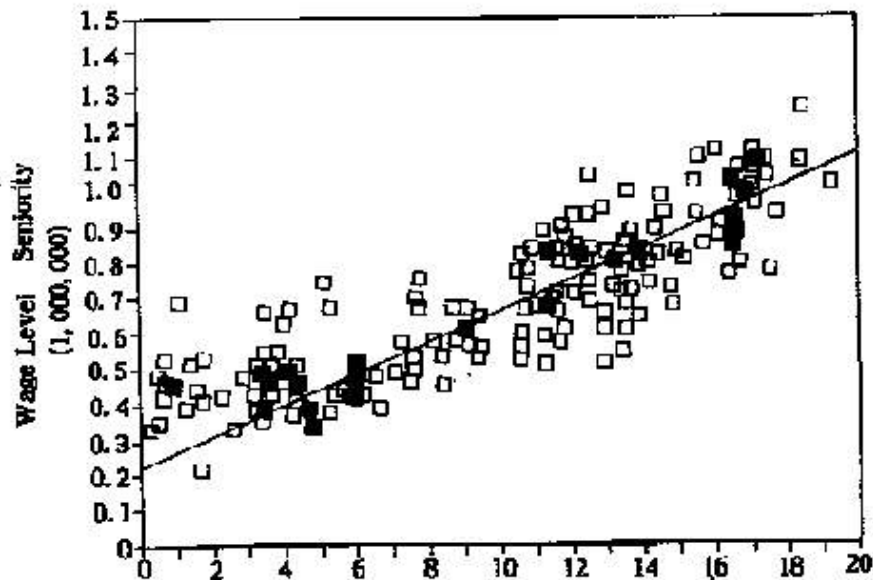
The flexible employment system also has limitations. If workers who are desired to stay at an organization leave, and those whom the organization wishes to get rid of remain, a serious problem will occur in the performance of the organization. Also, separation causes many problems, for example: securing a good workforce and increased cost to recruit, select and train the workforce. Separation of a few people from the organization can affect the morale those remaining and sometimes even prevent the organization from achieving its objectives. Another reason not to neglect separation is that it reflects the current status of an organization. From society's viewpoint, separation causes frictional unemployment of workers during their shift to other workplaces.

Separation influences an organization differently according to its level. On one hand, separation at high levels reduces the workers' sense of belonging to their organization and lowers their morale, thereby impeding the productivity of the organization. On the other hand, if the rate of separation is too low and the inflow and outflow rate of an organization is virtually nonexistent, the organization will lose vitality and a strong development can be hardly expected. Therefore, separation at the appropriate level can bring forth opportunities to replace the unnecessary workforce with a better one.

Seniority based wage and promotion system

A seniority based wage and promotion system is a leading characteristic of Korean employment practices, contributing to long-term employment and a rigid labor market. The underdeveloped competitive internal labor market becomes an obstacle of itself to the creation of a flexible external labor market (Choi, 1996a).

Figure 1. Wage distribution in Korea



Source: Korea Labor Institute, "Labor Statistics", 1991

At present, the characteristics of administrative situation related to wage and promotion are as follow; First, the structure of wages is very seniority-oriented. As figure 1 represents, the determinant of wage structure is seniority (or age). Therefore, other determinants are neglected. Second, in most companies, promotions are solely seniority-oriented. Third, most blue collars work at fixed jobs that were allotted at to entry into the company. In other words, there is no job rotation and skill development, but everything operates on a seniority based human resource management system.

Challenges to HRM in Korean Companies

The adoption of the ERP in Korean companies can be attributed to the rapid changes in the environment of their human resource management strategies. Present conditions that pose a challenge to most Korean companies are as follows.

Aging of workforce

Many companies have experienced a decline in growth since the 1980s, which led to a result of the serious aging of the workforce in companies. An aging workforce has a serious impact on several general aspects of human resource management such as wages, promotion, jobs, and capability development, and on the efficiency of management in areas such as the function of individual workers and labor productivity. Aging of the workforce also causes various problems such as a decrease of efficiency in business management, the decline of workers' job abilities, the reduction of productivity, and an increase of personnel expenses based on the seniority-based promotion system.

Table 1. Aging of workforce in Korean companies

(unit: %)

age	1991	1992	1993	1994	1995
55~	2.7	3.7	4.8	5.2	5.7
50 ~ 54	5.7	5.6	6.9	6.9	6.8
15 ~ 49	91.6	90.7	88.3	87.9	87.5
total	100.0	100.0	100.0	100.0	100.0

Source: Statistics in labor economics, 1991 - 1995, Ministry of Labor

Promotion stagnation

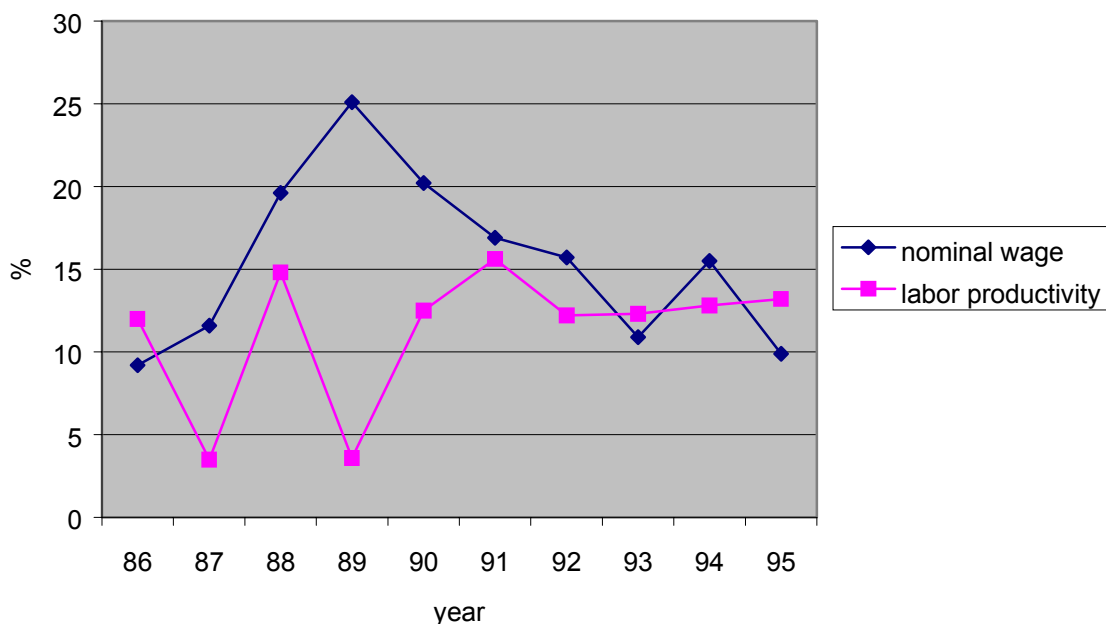
Although employees' desire for promotion is increasing continuously, opportunities for promotion are decreasing due to a stagnation of promotion. As a result, a widespread decline of employees' morale is taking place in many organizations, which exerts a negative influence on productivity. According to a recent survey made by the Korea Employers Federation on 169 companies with more than 100 employees, the actual periods for promotion in every job and rank were longer than the periods stated in their regulations (KEF, 1996b).

Increase of labor costs

Korean companies are experiencing difficulty in business management because of increasing personnel expenses that can be attributed to the rapid wage increase since 1987, and to the seniority-based wage system. Moreover, wage increase rates that by far surpass the increase in rates of labor productivity are threatening the international competitiveness of Korean companies.

As wage increases in Korean enterprises are expected to continue at an even higher level, wage levels will be one of the major factors that will impede the international competitiveness of Korean companies in the long term, as well as at present.

Figure 3. Wages and labor productivity increase in manufacturing industry



Source: Statistics in labor economics, 1986 - 1995, Ministry of Labor

Lack of skills to respond to changing business environment

As the environment of companies is rapidly changing, they are required to secure the flexibility that will enable them to survive these shifts. Flexibility is especially needed in the management of the workforce and organization, as most Korean companies are finding it difficult to actively respond to rapid changes because of their inflexible management.

Increase of surplus workforce and in-house unemployment

Many companies are experiencing a surplus in the workforce, with more workers than are needed. As a result of business reengineering, automation, computerization, and the improvement of tasks and organization over the recent years, many workers in organizations became idle within the company workforce. The idle workforce should be regarded as being virtually unemployed, even if they do not leave their companies. This in-house unemployment is spreading in many companies and is stiffening the move to execute plans to coordinate and strengthen the company's competitiveness.

Reasons to adopt the ERP, as shown in a recent survey by the Korea Employers Federation on 178 Korean companies are as follows (KEF, 1996c). The first reason is to solve the problem of stagnation in promotion (57.4%), which is followed by the reduction of personnel expenses (17.0%), and by support for old workers' new career plans (14.9%). Large, small and medium-sized companies present quite different reasons for the adoption of the ERP. Large companies with more than 1,000 workers regard stagnation as the most important reason (60.0%) while small- and medium-size companies with less than 300 workers consider reduction of personnel expenses to the most important (57.1%).

Characteristics of Korean early retirement program

Forced Voluntarism

Generally the ERP should enable members of an organization to develop abilities and to start new lives when they reach a certain age. It also should moderate stagnation of promotion in an organization. In the ERP, a worker submits an application for retirement when he reaches a certain age, and management accepts it by giving him a retirement allowance and a special bonus, or by supporting his turnover and career development. Accordingly early retirement should be carried out only at the request of employees, and there should not be any pressure from management for such retirement.

Unfortunately, the targets of Korean early retirement are under indirect pressure from the management plans and are influenced by the organizational climate. Although the Korean ERP formally operates through the willingness of employees, in reality it operates in a state of management pressure. In short, Korean ERP operates under a disguised voluntarism.

Various Types

There are various types of ERP according to methods of implementation, the objectives, and linkage with other programs. The temporary implementation of an ERP means that management receives applications for retirement only for a certain period.

For example, a Seoul branch of a British bank announced that applicants for retirement with more than five years of service will not only get a regular retirement allowance but also a premium for early retirement that amounts to two years' annual wages. Continuous implementation means workers can choose the ERP anytime, according to regulations.

An ERP based on fixed age groups means that a retirement zone is established from a certain age until a retirement age is reached, and employees who enter the zone may at any time choose early retirement. An ERP based on multiple age limits means that several ages are set for retirement. For example, 50 may be the first retirement age, while 60 may be the second.

Table 2. Types of early retirement program

Classification	Types
Methods of implementation	- temporary - continuous
Objectives	- workforce reduction - support of new career development
Incentives for retirement	- more retirement allowance - support of independence - outplacement
Zone	- fixed age groups for early retirement - multiple age limits
Linkage with other systems	- linkage with retirement age for managerial staff - retirement as an option in career determination - retirement as an option in determining types of employment

Targets for the Senior and White-Collar Workforce

Most Korean companies adopt the following standards to select targets for early retirement. The standards include length of service, remaining period until retirement age, rank, and length of service at each rank. The most widely used standard is length of service. Some companies adopt length of service as the sole standard for early retirement, while other companies use length of service and other conditions, such as the remaining period until retirement, rank, and length of service at each rank. Targets of the program have been senior workers, but there is a recent tendency to extend it to junior workers.

And the target employees of ERP are white-collar workers. The reasons are as follows. The first reason is that white-collar workers in Korea maintain a low labor productivity rate compared with those in other countries. Second, most senior white-collar workers do not belong to unions. It is easier for management to handle the resistance of ununionized white-collar workers compared with unionized blue-collar workers.

Rapid Diffusion

The Korean ERP was first introduced in the public sector. It was implemented for government officials in 1974, for the first time in Korea. The program adopted by the Korean government is for general government officials, educational officials, police, and military officials who have served more than 20 years. About 7,000 officials went into early retirement up to 1994.

After the government, public corporations followed the program. The Korea Housing Corporation first adopted it in 1985, and most public corporations are implementing the program at the current moment. Financial institutions are adopting the program more actively than any other organizations. Most banks except for the newly established ones are implementing the program and have shown the biggest commitment. In its early stages, most targets of the program were high-ranking employees who were more than 40 years old and had worked from 10 to 15 years. However,

the targets of the program are extended nowadays to younger workers of all ranks. Accordingly, the number of employees who went into early retirement has increased. During the rapid spread of the ERP in financial institutions, private enterprises also introduced the program to solve the problems of stagnant human resource management, to reduce personnel expenses, and to support new career plans for middle- and older-aged workers.

The Korea Employers Federation's 1995 survey of 278 domestic companies showed that 17.3 % of surveyed companies had adopted the ERP, 10% were considering its adoption, and 64.2% had not adopted it (KEF, 1996c). According to the survey, not just large companies, but also many small- and medium-sized companies were found to have much interest in the program.

Problems of Early Retirement Program in Korean Companies

Contrary to management intents and claims, the Korean ERP is experiencing many problems. These problems are examined from the both sides, management and labor, to offer an eclectic view of each opposing side.

Management Side

Contrary to management's intention of abolishing the incompetent workforce, competent workers leave sometimes the company through the ERP, while incompetent employees remain. This problem results in a larger consequence than originally intended. In fact, many companies have lost excellent workers who have shown greater capability in managing and strengthening a company, but who opted to receive retirement pay and shift to rival enterprises. The prevention of this type of incident will also demand greater focus on management practices so that a backlash will not occur more often. For example, in company H, executive personnel who were targets of early retirement never applied for retirement, whereas about 100 engineers left the company over a period of three years. The ERP, though intended to enhance company spending and management, can do more damage than good.

The program has the inherent risk of failing to reduce labor cost to the degree of the management's intentions. As shown in the abovementioned example, when indispensable excellent workers leave the company through early retirement and incompetent employees remain, management is left with a great burden of retirement compensation and fails to reduce personnel costs. Also, too much retirement pay given to retirees offsets the effect of reduction in labor costs.

The program may decrease the remaining employees' loyalty to their companies by making them anxious about their employment. This may lead to a decline in the quality of their work and productivity, and have negative effects on organizations instead of the expected results of vitalization and increases in productivity.

Labor Side

Sudden retirement causes retirees to experience psychological instability. As mentioned above, one of the characteristics of the Korean ERP is forced voluntarism. An employee who is suddenly asked by his company where he has worked for more than 10 years to retire early may sense a lack of loyalty to organization. And he may feel an inferiority complex. Accordingly, retirement creates in him an identity crisis. If a worker is faced with involuntary retirement with no consideration of his wishes, he can be stigmatized as an incompetent person and lose the basis of his self-respect, to himself, family and peer groups.

Retirement breaks down the retiree's family bond. Most Korean companies provide workers with special retirement pay in addition to the usual retirement compensation. Methods for calculating special retirement pay and the amount of that pay differ according to company size. The most general method for calculating special payment for early retirement is to pay employees several months' wages in a lump sum.

Most retirees do not know how to handle retirement pay, because they are retired suddenly without preparation. After a few years, a part of them spend all the retirement pay. They lose the source of household income. The wives seek temporary jobs. When the retiree's families do not overcome those stressful situations, they run the risk of breaking down mentally and in some instances physical illnesses can also occur. And those household problems could then evolve into social instability.

Suggestion

In order to create a better Korean ERP, the program itself must not only be looked at but its infrastructure should also be improved.

Redesign of ERP itself

Concrete methods to improve the Korean ERP are as follows. First, the programs of preparation for retirement should be developed (Kim & Ahn, 1996). Retirement is a turning point that offers opportunities for a new life. The programs should include development of various skills and provide information that will enable retirees to interact with new social conditions such as new life styles, new jobs, and new social structures. The programs should also provide guidance to retiring employees with regard to financial plans, career development, maintenance of health, and use of leisure time.

Second, the number of applicants for early retirement and their wishes should be clearly examined. It is necessary to pre-examine the situation and needs of prospective retirees. Compensation for retirement includes not only retirement pay, but also employment at other companies or useful programs to prepare for retirement. Management wants to get as great an effect as possible from early retirement while minimizing expenses for retirement. If applicants for early retirement are too few or too many, companies cannot attain their objectives and serious disorder may take place in human resource management.

Third, sufficient communication and agreement should be sought after a decision for the ERP (Schulz, 1989). Before its implementation, management should fully explain to employees the benefits and drawbacks of adopting the program. The decision for early retirement should be based on the choice of employees; management should not force or recommend employees to apply for it. Instead, management should make employees understand that early retirement is based on management's good will to compensate workers for their long service and help them start a new life, and not merely to get rid of them. Sufficient explanation should be given to employees with regard to early retirement by showing them its advantages compared to those of a regular retirement plan. If management fails in the process of communication, distrust will prevail on the side of labor, and employees will reject the program and cause greater communication breakdown and cooperation.

Fourth, standards for the selection of targets for retirement should be rationally established. Most companies use length of service and age as criteria, but these should be rationally established. If the age used as a qualifying factor for an ERP is too high, the program will have almost no effect and expenses will only increase. If the age is too low, the stability of an organization may be threatened because of too many separations. The appropriate age should be determined as a standard for early retirement in consideration of the situation of the organization, its characteristics, and the wishes of individual employees. It is desirable to set the appropriate age, and vary it according to other factors that can further give the ERP a stronger platform to sit upon. Other factors include the rank, job, and length of service. Much like the initial hiring process that assesses a person's assets and skills, a company must also consider these listed suggested factors in order to justify their objectives in increasing a valued long-term employee.

Fifth, the level and methods of compensation for retirement should be rationally determined and well defined. In case of early retirement, compensation is composed of retirement pay and a special retirement pay. The levels of special retirement pay differ greatly by company. This raises a problem of social inequity. With too much compensation for retirement, employees may derive greater benefits than through regular retirement, which leads to inequity within the organization. These inequities should be solved by fair systems of compensation for early retirement.

Sixth, the outflow of competent workers should be prevented. With the implementation of the ERP, highly indispensable workers may leave an organization. For example an excellent employee of company B resigned after receiving large retirement pay, and entered a rival company. A local bank had to announce that the ERP is possible only after approval of a personnel management committee because indispensable, excellent employees applied for it. When top-notch employees apply for early retirement, management should persuade them to remain by telling them their prospects for growth or giving appropriate compensation.

Formulating Infrastructure of its System

Well-planned infrastructures to improve the Korean ERP are as follows. First, employment relations should be made flexible, in order to achieve numerical flexibility of labor (Atkinson, 1985). As changes in the business environment increase uncertainties, business management should cope with them by implementing flexible employment relations. The flexibility of employment relations can be enhanced by increasing the employment of non-regular workers through part-time employment, temporary employment, or outsourcing. As employment of non-regular workers can absorb the shock of environment changes, the regular workforce may have employment security. The introduction of the ERP and the problems it entails can be prevented via flexible employment relations through the reduction of regular workers into a small, elite workforce and drastic outsourcing.

Second, human resource management systems should be made better, in order to achieve functional flexibility of labor (Atkinson, 1985). Especially promotion and wage subsystems based on seniority should be improved. One of the important reasons for adopting the ERP is the increase of labor costs caused by the seniority-based promotion and wage systems. Various problems in the retirement program can be prevented by cutting the direct relationship between length of service and wages/promotions through the introduction of the wage and promotion systems based on capability. In other words, companies should develop competitive internal labor markets.

Career development program also should be established. As the competitiveness of a company depends upon the competitiveness of individual workers, systematic and long-term investment in human resources is required to strengthen corporate competitiveness. If every employee within an organization is trained to acquire a high level of ability through an organized system of career development, various problems related to the ERP will considerably decrease.

Third, in respect to the long term, redundancy should be institutionalized by law. In addition to this, measures to improve employment stability should be set. Among them, sufficient outplacement programs are necessary. Outplacement means that business provides service to individual workers with regard to various problems that take place after termination of employment relations. Outplacement can reduce the stress of retiring employees and enhance the morale of employees who stay in the organization (Schulz, 1989). As outplacement can decrease incumbent employees' anxieties about retirement, it contributes to their motivation. Outplacement services that can be provided to retiring employees are as follows: consultation for retirement, provision of job-search information, employment service, evaluation of retiree's ability, and financial consulting.

Conclusion

Recently, many companies in Korea have adopted the ERP to enhance flexibility of human resource management with a view to adapting to changes in the environment. Through the program, an organization can be lighter, younger, more flexible and equipped with better resources to cope with changes and innovate its structures. However, this is possible only when the program is rationally determined and efficiently operated in systematic linkage to human resource management system (KEF, 1996a). Therefore, an efficient system of human resource management should be established before the implementation of the ERP.

Although various problems with the ERP have appeared, it is necessary due to the present condition of Korean companies. Whether it will be successful or create more problems depends on its structure. Another important effect of the program not to be overlooked is its social and personal consequences. Employees' attitudes and satisfaction with regard to the program are as important as economic efficiency of company.

In conclusion, the ERP may be a desirable solution for Korean companies provided that it produces good results in both economic and social terms, and with little sacrifice on either side. In order to overcome the threat to the company's position, organizations must utilize their resources more effectively. In so doing, the ERP must deal with greater criticism in the future, but as it matures, it too will become a stronger entity in the Korean business community as a social and economical move toward a better future.

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