

# RECENT LABOR SHIFT BETWEEN BIG CORPORATIONS AND VENTURE BUSINESSES

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One of the noticeable changes in the Korean economy in recent days has been greater flexibility of the labor market due to more frequent shifting of core people between conglomerates or public institutions and venture businesses. This may be the direct result of monetary inducement by the venture companies. The new values characteristic of the “n-generation” who prefer freedom to uniformity in consciousness, dress codes, and regulations, is further accelerating this movement of manpower.

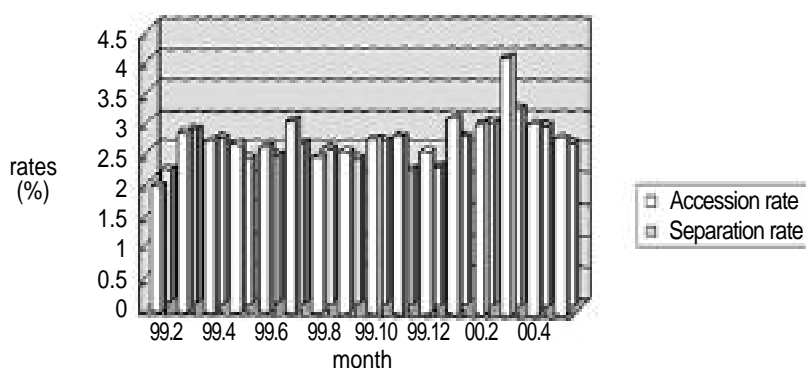
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## Venture business boom

The boom of venture business in Korea was brought about by a number of factors, including the bullish KOSDAQ market of late 1999, the positive outlook of society toward venture business, government policy, and a change in values of company workers at the end of 1999. The labor shift was observed in many spheres, among which the most striking were government officials in Ministry of Commerce, Industry & Energy and Ministry of Finance & Economy leaving their offices to join venture firms. 1,500 of the total 6,000 employees at Unitel quit their jobs, and almost

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Figure 1. Labor Turn-over Rates(All industries)



	99.2	99.3	99.4	99.5	99.7	99.8	99.9	99.10	99.11	99.12	00.1	00.3	00.4	00.5
Accession rate	2.03	2.91	2.76	2.7	3.1	2.49	2.58	2.8	2.85	2.59	3.14	4.12	3.05	2.83
Separation rate	2.13	2.8	2.66	2.32	2.56	2.48	2.32	2.62	2.14	2.19	2.69	3.14	2.86	2.59

Source: Monthly Statistics of Korea, Ministry of Labor, July, 2000

fifty people per month deserted LG-EDS, which left the management bewildered. On the other hand, Yahoo Korea saw a quite different phenomenon when they had to choose ten new employees from more than 1,000 candidates. The reason for this was that the company's employees had all become millionaires thanks to the good luck they had in stock options. The surprising fact behind this event was that one half of the candidates were highly experienced experts from big companies. Netian, another promising venture business, had to choose six workers from more than 4,000 candidates. Only 0.13 percent of the applicants were accepted.

**New phase of crisis**

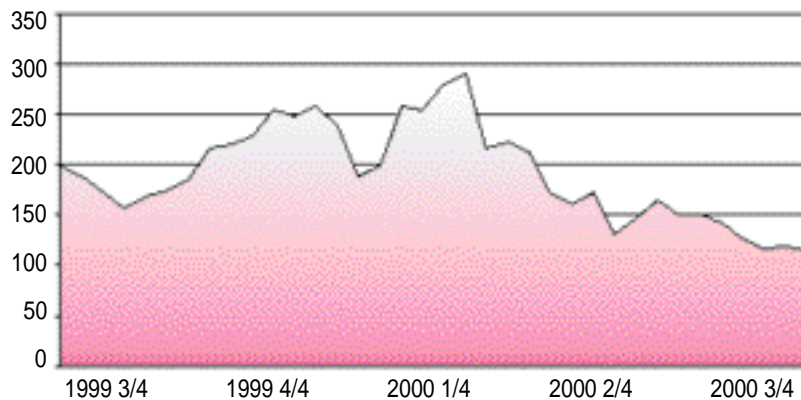
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Recently, the labor force has experienced another large shift, but this time in the opposite direction. This may be attributed to a trend in venture business which started in the latter half of 2000. The present situation is mostly due to lack of capital among venture businesses. Recent rumors of large-scale movement of manpower and of a crisis in dot-com companies have emerged from Teheran valley (Seoul's venture district) and are spreading widely. Furthermore, these opinions are not merely unfounded rumors; they are actually posing a threat in the valley. The inside story of these opinions practically matches current economic conditions. First, the dot-com crisis is rooted in the very tight capital conditions of venture business. While it is true that amid the venture boom of 1999 venture businesses sprang up like mushrooms and succeeded in collecting considerable capital with the help of the KOSDAQ boom, luck did not follow them all the time, especially from early 2000 when the KOSDAQ market faltered and economic conditions declined.

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American dot-com companies, which had been considered as models for Korean venture businesses, had fallen one after another, which helped shake up their Korean counterparts. This in turn led to a big decline in investment, the main source of capital for these companies. Venture capitalists turned their back on them, and one by

**Figure 2. Trend of KOSDAQ index**



Source: Kosdaq Stock Market Inc.

one the dot-coms started to collapse. There is even a dismal but realistic prediction among some experts that a massive meeting and parting may leave serious damage to the entire venture sector, starting from Teheran valley, later this year. The fact that most of these venture businesses started with very small scale capital of 100,000 to 200,000 dollars, and that this capital may be exhausted in September also gives reason to believe that the above analysis is plausible.

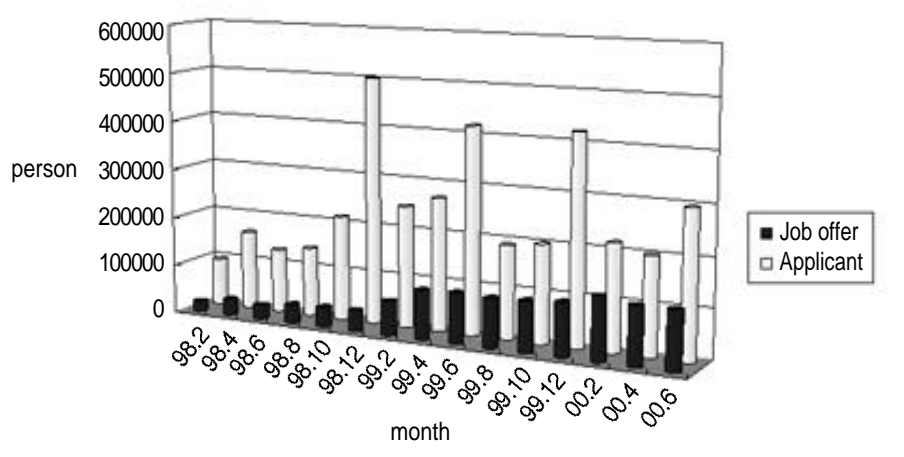
It is thus understandable why there is a big labor flow from venture business especially in Teheran valley. This movement is led by expert workers from venture businesses who are trying to move to more stable ventures before the crisis gets worse. Some of these people have even moved to big companies instead of venture businesses, the conglomerates in return are recruiting workers from Teheran valley. This labor shift is not limited to the star workers of venture businesses. Often, the star talents in venture businesses who occupy important positions will take some of their trusted colleagues or subordinates with them when they move to a new position. Despite the efforts of venture firms to fight off capital stringency by investing heavily in R&D, the labor drain is forcing firms to abandon new projects or even close their businesses. The large-scale labor shift may have a disastrous aftermath in the valley because there is a loss of core technology as well as talent. Although a small number of venture businesses are welcoming this large-scale flux because it enables them to recruit high-quality web masters & programmers who were previously rare, most experts agree that on the whole, the exodus of manpower from or among venture businesses has more problems than benefits.

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Not long ago, when Samsung Electronics took Medialincs to court, the court decided that “a high-tech worker is prohibited from engaging in the same kind of business within one year of resigning from the previous employer.” This ruling has blocked uncontrolled labor migrations in the semiconductor and information & communication industries. Big companies suffering from the loss of core human

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**Figure 3. Trend of Job offer/Applicant**



Source: Report on Monthly Labor Survey, Ministry of Labor, May, 2000

resources in the fields of semiconductor & communication took the decision as a means of legally protecting the confidentiality of their businesses, while venture businesses in desperate search of skilled hands felt a threat to their competitiveness due to a lack of qualified high-tech workers.

### Impact of the large scale labor shift

*One of the main causes of desertion is the stock options and higher wages proposed by dot-coms.*

The movement of workers among Internet businesses is occurring beyond national borders, and it is felt that this worldwide trend will be sustained and inevitable. Notably, businesses in key industries are suffering from leakage of talent and expertise through company deserters. One of the main causes of desertion is the stock options and higher wages proposed by dot-coms.

The damage brought about by the brain-drain is more severe to small firms, and companies are trying to cope with this problem by proposing a wage hike of 10% or by offering fringe benefits.

However, there are a number of positive aspects to this situation; for instance, it provides an opportunity to increase the flexibility of the labor market on one hand, and can act as a spur towards a society based on competence on the other. The labor market can transform itself to one of an advanced nation, with the society based on seniority morphing into one based on accomplishment and competence. The notion of a lifelong workplace is giving way to greater labor force mobility. Secondly, methods of personnel management will be improved. The value of workers will be determined by demand and supply within the labor market; in short, accelerated innovation in the entire personnel system will take place through employment as the occasion demands. Thirdly, the industrial society will turn to a more knowledge-based one. In other words, instead of labor and capital at the core of competitiveness, knowledge and technology will be the foundation of a new economic sphere with the traditional generation, x-generation and the n-generation mingling together to make up a new type of labor force.

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One cannot overlook the negative effects of the labor shift. First of all, the hollowing out of manpower in the manufacturing industry has been one of the most notable forms of damage. Due to indiscriminate inducement of manpower, there has been a steady decline in the proportion of employees in the manufacturing sector: from 21.2% in 1997 and 20% in 1998 to 19.5% in 1999. Secondly, the existing organizational order is apt to crumble. With the ability-based generation taking over the seniority-based industrial generation, traditional values will be lost without any viable alternative. Third, companies will witness a drastic decrease in loyalty among their employees. Mammonism can result from expectations of considerable wealth from success in venture business, and the level of loyalty will proportionately decline. Finally, the defection of elite manpower may leave co-workers demoralized. Feeling deprived, the latter may lose the will to work, which will directly result in lower productivity and overall stagnation in the workplace. **VIP**