

UPDATE ON THE PERFORMANCE-BASED WAGE SYSTEM IN KOREA

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Despite many efforts by Korean companies, the performance-based wage system (PBWS) is still seen as a challenge. It is generally agreed that implementing a PBWS in practice entails much difficulty. Therefore, most Korean companies do not introduce a “full” PBWS, but instead adopt a mixed form in which seniority and performance criteria are combined.

Some observers argued that one of the reasons for Korea’s economic crisis was the seniority system peculiar to Korean companies, and new methods for wage system were suggested. In other words, Korean companies during the IMF restructuring tried to seek new wage systems to induce higher labor productivity.

–Figure 1. Changes in HRM resulting from Performance-based Wage System–

OLD SYSTEM	Dimensions	NEW SYSTEM
Education levels Demographic HR characteristics	Selection criteria	Retained competency Prerequisite based
Life-time employment	Employment	Contract employment
Corporate level performance	Evaluation criteria	Individual level performance
Seniority based	Compensation	Performance based
Generalist	Objectives of HR	Specialist

Obstacles to adopting the PBWS

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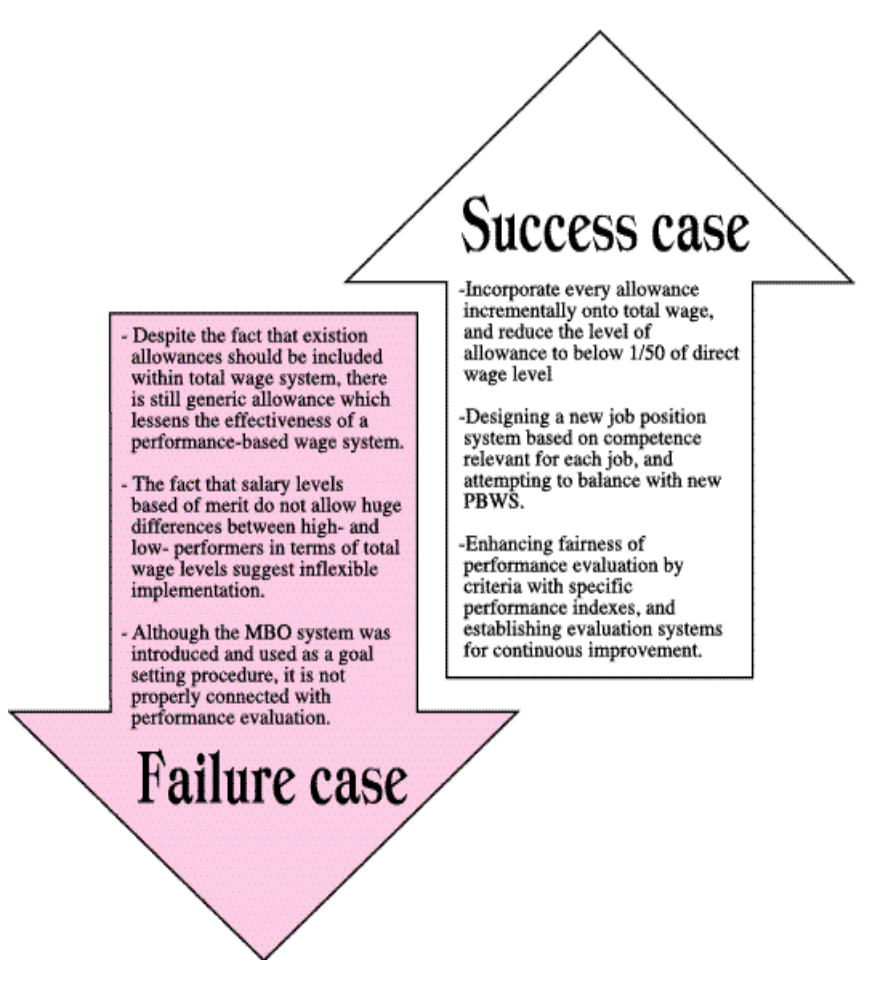
The biggest obstacles to adopting the PBWS in Korea is the discrepancy between the wage system and work environment. It is difficult for a traditional, seniority-based society to install a performance-based system. In a management

framework where harmony among workers is the main goal, individual performance is relatively undervalued, the organizational structure conflicts with the PBWS, and authority tends to remain centralized in the organization. In such a system, seniority is often considered more important than individual performance.

Another problem seen in Korean companies is the lack of follow-through after the introduction of a PBWS. For a fair evaluation of salary scales within a PBWS, factors such as the level of acceptance among workers, the characteristics of the industry, and the management philosophy need to be examined. The reason for the gap between theory and reality in Korean companies was that their PBWS did not include scientific methods or mechanisms such as definite criteria for performance evaluation. Without backup from the organization as a whole, the newly introduced PBWS will not adapt successfully to the new circumstances.

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Figure 2. Two Cases of PBWS



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Likelihood of applying PBWS

The first prerequisite to a successful PBWS is harmony between the organizational structure and the job characteristics.

The first prerequisite to a successful PBWS is harmony between the organizational structure and the job characteristics. The PBWS has to be applied in an organic work environment. Adapting smoothly to changing circumstances requires a flexible organizational structure, where each individual can give full play to his abilities. Since the ability of workers and technology are highlighted in an organic work environment, such a workplace fits well with a PBWS. On the other hand, seniority-based compensation systems often give way to mechanical attitudes toward jobs; adopting such a wage system in an organization that experiences frequent changes can only be an obstacle to development of workers' ability.

It is therefore important to make sure that the PBWS corresponds to the organization's identity, including its sense of mission, vision, and sense of values.

A seniority-based compensation system should be exercised in a mechanical work environment that has little change and greater stability and centralization. In such an environment, loyalty toward the organization is considered more important than achievement, and rank or hierarchy come before performance and quality. If such an organization introduces a PBWS, it is very likely that the group culture will fall to pieces and that the new system will conflict with the existing one which had emphasized authoritarian relationships. It is therefore important to make sure that the PBWS corresponds to the organization's identity, including its sense of mission, vision, and sense of values.

Establishing a PBWS in itself does not guarantee higher competitiveness; a performance-oriented system should be established within the entire company to avoid future problems. For instance, PBWS might conflict with existing life-time employment or collectivist method of management, thus reducing effectiveness. Even after introduction, the performance of each individual and the group should be closely observed. In order not to hinder group performance, a controlling mechanism is needed to maintain the balance between individuals and the group. For the sake of fair evaluation, PBWS will have to be supported by operational devices such as benchmarks to measure performance.

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When an organization or a system is reshaped by a performance-oriented system, relationships among workers also change. A vertical pyramidal organization that had been based on seniority will collapse at each level, thus making the organization look more like a network based on competence. Also, the cooperative relationship among workers will transform into a competitive one. However, if the system clashes with the management, it will be difficult to inspire either professionalism in an organization oriented toward individual competence, or group motivation in a hierarchy-oriented organization. **VIP**