

# **Labor-Management Partnership Development and Challenges in South Korea**

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## **1. Labor-management partnership defined**

The labor-management relations of Korea have been regarded as one of the disputed cases. As a consequence, most studies on Korean labor-management relations have focused on the faces of confrontations and conflicts among tripartite members. However, in this chapter, their efforts of partnership building will be addressed with an additional attention on workplace innovation.

The labor-management partnership (hereafter LMP) can be considered as labor-management cooperation in the broadest sense, but is traditionally and narrowly defined as industrial relations that emphasize worker participation (Yongjin Noh, 2010). Because labor-management cooperation and mutual trust are preconditions for the participation of workers and labor unions in the workplace, both cooperation and participation are essential. We refer to them as two pillars of LMP.

Academics and practitioners in industrial relations have turned their attention to LMP as a positive alternative to the labor-management relations, produced in the collective bargaining model which is seen as not having the flexibility needed to respond to fast-moving business environments. Furthermore, the traditional collective bargaining-oriented industrial relations model was seen by employers as unhelpful in adjusting to the the strains of global competition

and crises since the 1980s. No doubt part of the attraction of the LMP model was research suggesting LMP benefits are biased towards employers, despite the advantages that mutuality principles and follow-on practice show in employee attitudes and behaviors, and positive employment relations (Guest and Peccei, 2001).

The concept of LMP was closely connected to the introduction of high performance work systems. Extensive and expensive work systems were seen as demanding a new way of working and LMP appeared to offer a new paradigm which enabled organisations to use LMP to facilitate, the flexibility of their organizations, labor productivity, and quality improvements (Youngman Lee et al., 2009; Youngjin Noh, 2010): in short, workplace innovation was seen as being enhanced under LMP.

This connection raises the question regarding the union role with LMP: is LMP more advantageous in non-union companies than in union companies? Naturally, critics contend that LMP will likely reduce the influence of labor unions over time by subordinating their role to direct workplace participation, while management acquires the benefits of high-productivity, lower costs, and decreased conflict costs. They fear a displacement of members' expectations of the benefits of union activity, such as traditional collective bargaining, and long-term issues from intensified labor control and a decrease in job autonomy, disguised by short-term gains such as increases in profit sharing (Hyunmi Park and Soonsik Kwon, 2010)

Much of LMP research to date considers firms and unions in the UK, and here partnership has been the result of labor unions' strategic choices to maintain their position and deliver profitability in the context of a consistent decline in the organizing power of unions, union

density and bargaining power (Jung Gyunghoon, 2007).

Since the 1990s, labor-management partnership aimed at the mutual gains of high performance and profit sharing has become firmly established. Labor unions and management have seemingly progressed toward cooperation to build high performance establishments beyond merely trust-building exercises and expanding communications. The side effects of such high performance work systems, such as the weakening of job autonomy and strengthening of labor intensity, may be viewed as problems to solve rather than intrinsic conditions. Therefore it is necessary to search for options where the qualitative aspect of labor autonomy, creativity, and work-family balance are in harmony with company performance goals, setting a standard for innovative workplace practice. The need for such systems is all the more pressing as the 4th industrial revolution will undoubtedly upend familiar mass-production (Fordism) and even innovative line operations (lean production) ways of managing and working.

In Korea LMP has been discussed often as a response to traditional conflict ridden management-labor relations, yet it has not been addressed by policy, more in the form of “good intentions” principles governing mutually beneficial and balanced goals of employment and industrial relations. In this regard, it is appropriate to define LMP with broad goals: programs and systems aimed at creating mutually beneficial relationships (rather than profit redistribution-oriented or bargaining-oriented relationships), building collaborative skills and practices, and embracing the complex nature of participation, cooperation, and innovation.

LMP promises to form long-term and sustainable labor-management cooperation by further shaping and enriching stakeholders’ expectations of partnership by building trust.?’

Any consideration of LMP should start with recognizing the new changes to the business environment. It is true that in the past, high-performance workplace innovation and LMP developed in a very organic way. But now, the 4th Industrial Revolution, including automation and robotics, increasing anticipation of behavior via big data and artificial intelligence, and rapid, wholesale shifts in industries, pose new threats to labor. More comprehensive labor-management relations and partnerships are essential for companies, workers, and unions to survive.

Futurists claim that the potential effects of the 4th Industrial Revolution will be wider in scope and deeper in penetration to our everyday lives than anything we've seen before, from the introduction of the motorcar to the exploitation of the Internet. Countries' particular efforts to command this new space can be seen in the launch of 'Smart Factories' in Germany and the EU, 'Industrial Internets' in the USA, the 'Robot Revolution Realization Strategy' in Japan, China's state-driven 'China Manufacturing 2025 Strategy', and Korea's off-the-mark 'Manufacturing Innovation 3.0 Strategy'.

In a smart factory, a considerable amount of software is needed to optimize process automation and production, so software as a service (SAAS) to update and develop industrial manufacturing capability has already become popular. In addition, the internet of things (IoT) allows all inventory to be connected to the Internet. As a result manufacturers can acquire not just sales but usage data from product sales, data that can be used to provide other marketing, product development, and ancillary services to consumers. In Germany, Siemens is not only improving its productivity, but also selling its production system externally to raise profits.

Companies that once sold 'parts' are being reborn as companies that offer industrial automation 'system solutions'.

According to the World Economic Forum, one-third of European workers still report being over-skilled compared to their work (World Economic Forum, 2014), suggesting that the modern workplace has yet to fully exploit the labor available. Perhaps the dissatisfaction in work is that current work relies too heavily on 3rd industrial revolution equipment and machines, limiting human autonomy and creativity, or perhaps the increases in productivity such equipment and machines have brought have shifted our expectations of what work is about. Whatever the diagnosis, workplace innovation may provide a remedy.

Under these conditions, LMP should promote the organizational redesign of the modern workplace to more fully exercise the abilities of existing workers for maximum performance. If we recognize that the underemployment of 13% of Europe's workers will likely be exacerbated through the realization of the 4th Industrial Revolution, an adjustment strategy incorporating worker lifelong learning systems is sorely needed.

## 2. LMP and its Characteristics in Korea

### 1) Recent trends and achievements

The distinctive feature of LMP in Korea is that it began with government support programs. Some have suggested that the move towards partnership was simply cynical sloganeering by

labor and management alike, yet the truth is this was an intentional government strategy put into play with government support and programs.

The government has funded LMP programs since 2003 in order to build a co-operative labor-management culture in Korea. A 2016 survey of companies participating in these programs suggests that generally LMP has been supported by employers, because 58.9% of the programs was proposed by employers and 22.2% by labor and management (Changwon Lee. et.al., 2016).

<Table 1> How to Support the LMP Program

	Frequency	Ratio (%)
Proposed by employer side	53	58.9
Proposed by labor side	14	15.6
Proposed by both sides	20	22.2
Proposed by third party	3	3.3

<Table 2> shows the specific motivation of employers applying for the government-sponsored LMP program. The 5-point scale survey indicated that the greatest motivator was to "facilitate smooth communication between labor and management on a daily basis", while less significant was the purpose "to improve negotiation techniques such as collective bargaining". In general, respondents gave high rank to criteria around improving labor-management cooperation, while the need to improve productivity through workplace innovation ranked low.

<Table 2> Motivation for Employer's LMP Program Application

Rank	Motivation	Avg.
1	To facilitate daily communication between labor and management	4.14
2	To find ways to coexist and cooperate along with labor and management each other to overcome the economic crisis	3.92
3	To find ways for labor-management cooperation to overcome the difficulties of the company	3.84
4	To effectively manage industrial relations conflicts	3.82
5	To promote the participation of workers related to productivity, such as the proposal system and the autonomous team	3.82
6	To establish a workplace innovation plan including improvement of wage system and work capacity	3.81
7	To establish an everyday response system capable of responding to crises	3.78
8	To improve productivity such as quality improvement and to improve the efficiency of organization	3.69
9	To improve conversation and negotiation techniques in collective bargaining and various labor-management consultations	3.44

In Korea, workplace innovation through labor-management partnership has not gained much momentum from management or labor on its own, but after the Asian financial crisis and subsequent IMF bailout, a consensus emerged that Korean companies were no longer able to achieve sustainable growth without increased innovation and productivity. In response, the government developed models for LMP centered on several successful companies and started to offer innovation-consulting services to companies free of charge, dubbed "New Paradigm" consulting to match a new industrial relations climate, and has been the focus of policy focus for several years. Table 3 includes details on implementations of consulting services by industry type up to 2009.

<Table 3> New Paradigm (Workplace Innovation) Consulting Performance: by industry

	Manufacturing	Service industries	Public sector	All
2004	5	3	5	13
2005	14	24	11	49
2006	28	32	16	76
2007	12	46	15	73
2008	16	28	16	60
2009	15	7	6	28
전 체	90(30.1%)	140(46.8%)	69(23.1%)	299(100%)

The purpose of “New Paradigm” consulting was to coach labor and management representatives to find customized solutions by themselves, reduce work hours, increase workplace learning, improve productivity, and create jobs, all at the same time. Independent research that surveyed and analyzed the results of pre and post-consulting showed that the support budget related to worker learning and education increased substantially, and job creation increased by nearly 10%. This level of institutional change is difficult to achieve in organizations, and suggests that the “New Paradigm” consulting played a very important role in the perception of organization members, their communication success, and the resulting innovations to their corporate culture (Youngho Lee, Heonhyuk Ha, 2010).

<Table 4> Comparison of New Paradigm Performance Survey Results

	Woosung Park/ Jasook Gu (2006. 5)	NPC (1st) (2006. 10)	Jasook Gu (2007. 4)	NPC (2nd) (2008. 7)
Number of employees (job creation)	27.3%	10.9%	18.4%	9.9%
Learning time	504.9%	549.2%	142.7%	67.3%
Learning (education) budget	-	74.6%	46.9%	101.7%



Looking at firms that recently took advantage of consulting and government support, one-third of manufacturing and services industry firms appear to have benefited from the exercise. In terms of size, roughly 42% of companies with less than 100 employees and 86% of companies with less than 300 employees received consulting support, so most consulting support was concentrated on SMEs. In terms of the focus of consulting, wage system improvements were the most popular (36.6%), followed by developing ability-based manpower systems (26.3%), developing new evaluation systems (18.1%) and time selection system job (17.8%) (Gyetaek Oh et al., 2016).

Of the 1,024 companies that received consulting services from 2014 to 2016, 222 (21.7%) were found to have labor unions and 802 (78.3%) did not. Public organizations, manufacturing (heavy industry), and large firms have shown that the proportion of unions is increasing. In terms of the focus of consulting services, almost all LMP-related consulting was requested by unionized companies (85.7%), whereas in companies where developing ability-based manpower systems and improving evaluation systems were the goals, the union rate was relatively low (Gyetaek Oh et al., 2016).

As a result, diversification of workplace innovation projects and the support of non-union workplaces centered on the problem of hindering the voluntary innovation motivation of the workplace, and the need for workplace innovation led by labor and management was emphasized again. Employers themselves are still lacking in the will to build labor-management partnerships to innovate the workplace, and industry-level channels to promote workplace innovation such as sector councils and industry-level bargaining are weak, so it is difficult to generate a voluntary drive behind labor and management.

## 2) Recent changing trends and remaining obstacles to LMP adoption

The survey results on Korea's government consulting program suggests Korea's LMP remains at a basic level, focusing on establishing communication channels and trust between labor and management. In their focus, it appears that the practical need to improve communication between labor and management is a higher priority than innovating the workplace innovation or enhancing productivity. Sample projects of the former type include declarations of labor-management cooperation, achieving labor-management joint grievance settlement, and community service activities.

Of course, it is true that there has been a slight change in the recent LMP trends here compared to the past. The case of the Daedong Industry, which was selected as the best example of high-performance workplace consulting in the Korea Labor Foundation of 2015, exemplifies this change. Daedong Industries recognized that innovative LMP programs were important to transform into a high-performance workplace. It is noteworthy that Daedong took advantage of the LMP support program in 2015, but also set up a mid to long-term LMP development strategy. Daedong has succeeded in expanding communications with employees by constituting a works council and a "win-win" committee. Its labor and management teams have achieved concrete outcomes primarily through workshops, meetings among departments, and establishing a learning support system for each employee at every work level. Daedong has shown increased productivity, reduced failure rates, and increased the voluntary involvement of employees (Ministry of Employment and Labor, 2015)

In a similar case, KyungEun Industry, the winner of the 2016 SME sector Labor-Management Partnership Competition, averted a shutdown in the end of 2006 with the help of labor-management workshops, but also were able to improve productivity through workplace innovation, while changing its culture from long working hours to “people first, then work”. They introduced an employee stock ownership scheme, while labor and management joined forces to introduce a systemized human resource development program. Such balanced workplace innovation efforts are ambitious have led the SME sector.

While examples of such best practice are increasing, traditional institutions remain entrenched and so cooperation has yielded disappointing results. Personnel and compensation systems are difficult to rationalize and do not lead to the satisfaction of the employees. The operation and effectiveness of education and training are also limited.

Yet the introduction of more rational personnel and compensation systems as well as improved education and training within the workplace are becoming more and more important with the influence of the 4th Industrial Revolution. The spread of ICT technology and information requires the voluntary innovation and participation in Korean workplaces.

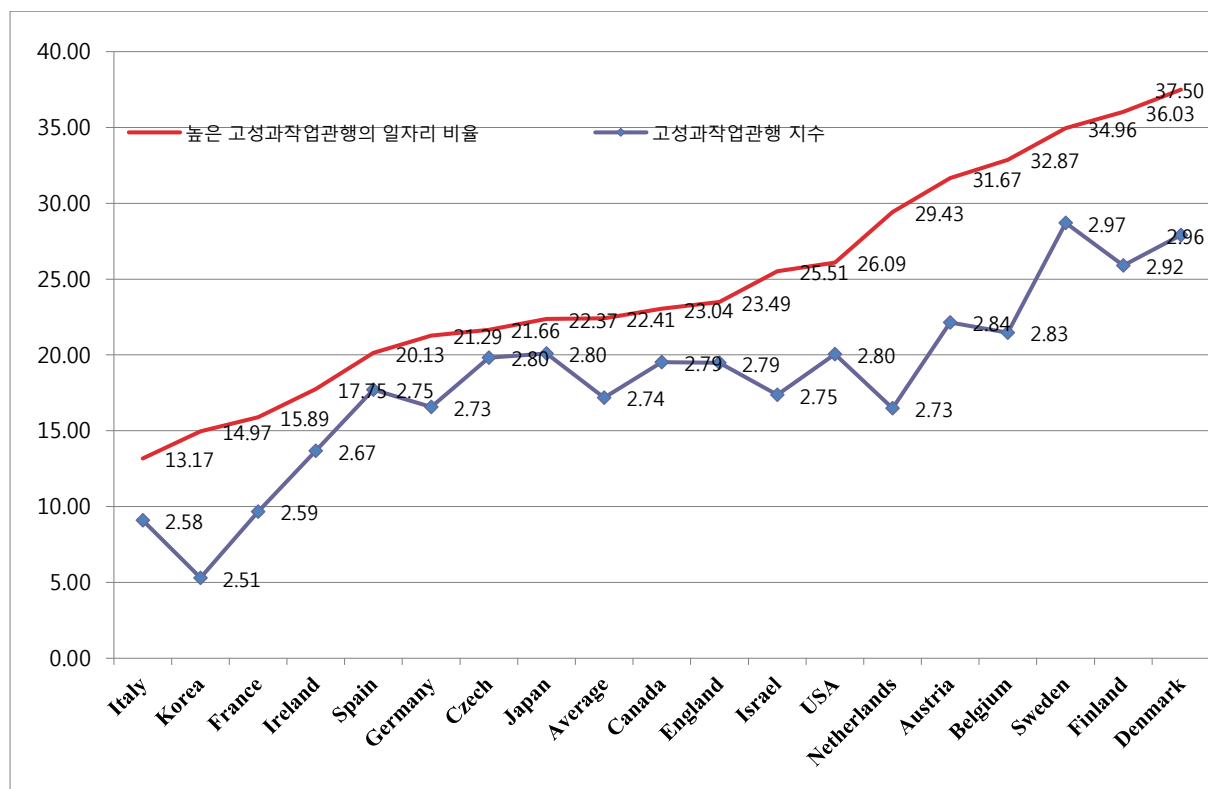
More fundamentally, the mutual cooperation needed to optimize production system efficiencies in the context of standardization, technical innovation, and the likely full-scale replacement of human labor with smart software and machines is entering a new stage. It calls for the re-assessment and re-establishment of the meaning of the labor-management relationship, and demands the voluntary and full participation of labor and unions. In this new kind of cooperation, labor and management must prioritize more voluntary and creative forms

of labor, strengthen flexible working methods to adjust to the impending new working hours reality, and reconcile work and family commitments.

### 3. Korea's Workplace Innovation Status and Tasks

Korea's status with regards to workplace innovation can be understood by comparing its degree of workplace innovation to that exhibited in other countries (Figure 2). Korean adoption of high-performance work practices is low compared to other countries, and although not shown in Figure 2, ranks lowest except Greece among 29 OECD countries surveyed about high-performance work practices. Additionally, the proportion of jobs with high-performance work practices was also low compared to other developed countries (Kysuk Bae & Changwon Lee, 2017)

[Figure 1] Workplace innovation in Korea compared to other countries (work organization only)



Note 1: The mean of the graph below is 2.79 and the variance is 1.

Note 2: High-performance work practices include work flexibility (work order, speed of work, autonomy in working methods), information sharing with colleagues, the extent to teach, train, and direct other workers, and the possibility of employing or planning time and activities on a weekly or monthly basis.

Source: OECD Employment Outlook 2016. Figure 2.10. Some variants of High-performance Work Practices

Compared with Japan, Korean companies have not implemented workplace innovations and skills training for skilled workers who actually produce products and services in the field. Instead, they seem to have tried to substitute labor through automation by introducing new technologies (Table 5): the leading type of workplace innovation in Korean firms is characterized by using autonomous work teams or adopting managed lean manufacturing methods, accounting for 15.7% of the total.

<Table 5> Types and degree of workplace innovation

Types	Autonomous working team	Managed lean production method	Technology-centered Taylorism	Classical Taylorism	Unstructured workshop
workplace ratio	4.1%	11.6%	13.4%	39.7%	31.2%

Note: For workplaces with 30 or more employees

Source: Sungje Cho 2010. WPS 2007

In many large enterprises, the work organization resembles classical Taylorism, or at least technology-centered Taylorism. With the exception of a few highly productive and competitive “hidden champions” among the field, most Korean SMEs exhibit low productivity, low ability to compensate for employees and lack the innovation skills to survive. This means that new workers lack organizational commitment and positive work attitudes, which in turn contributes to high churn rates among SMEs, and attendant labor shortages. Especially young people tend to move to a better place if they get the chance.

In summary, Korean companies are clearly lagging behind in on-site workplace innovations, whether looked at in general terms or from a global comparison perspective. The lack of workplace innovation can be said to be a result of executives' technology-centered thinking as well as a general lack of trust in inviting the participation of field workers into the realm of management.

A contributing factor to this lag may be Korea's confrontational employment and industrial relations past. Communication between field workers, managers, and senior management are hindered by status-oriented and hierarchical cultural norms, making the rollout of improvements or innovations dependent on the voluntary participation of workers quite difficult. So employers resort to more the more traditional management tasks of task control, and endeavor to replace works with automation.

Therefore, in order to pursue workplace innovation in Korea, managers must abjure technology solutions that exclude labor, and instead cooperate with labor and management to standardize the tacit knowledge of the workplace and implement it in production and service methods. A trusting relationship between labor and management must be built, in which labor and management distribute the profits from high performance fairly. For these programs to be achieved, the development of authentic labor-management partnership is critical for Korea's workplace innovation.

#### 4. Direction of development of LMP

LMP has evolved in a way consistent with the workplace production methods and skill-building

methods that support it: as a first step organizing for industrial peace, then next for high performance and mutual gain, and finally as a means to cope with the challenges of the 4<sup>th</sup> Industrial Revolution. Trust building is important for partnership formation in the first stage, as it is necessary to build a program through trust-based participation in the second stage. In the third stage, labor and management cooperation is required to develop workplace innovation programs that integrate learning and labor. In terms of skills, it is necessary to establish skill formation as a priority in the first stage, connect skills to productivity improvements in the second stage, and integrate labor-management commitment to the workplace learning system in the third stage.

Unfortunately, in a non-trusting environment, the acceptance of high-performance organizational programs is declining (AFL-CIO, 1994). Without innovation, corporate growth cannot be achieved, and any peace that labor and management enjoy in companies with low prospects for growth are fleeting at best.

However, innovation-oriented LMP alone cannot provide continuous motivation for unions, workers, and employees. If the achievements and/or costs of workplace innovations are only enjoyed by the enterprise, with the return to workers minimal, it is inevitable that long-term partnership will fail. Therefore, rather than approaching LMP as purely an innovation paradigm, those engaging in implementation should address social responsibility as well. In addition to being responsible for employees as primary customers, the LMP model addresses firms' social responsibilities to stakeholders such as external customers and local communities.

When employees maximize their participation in innovation programs and create an

environment where they can work safely, comfortably, and happily, their performance is enhanced. When labor and management create quality products and services with the benefit of market trust via social responsibility, the impetus to further the partnership is self-reinforcing through social support.

In summary, the direction of development of LMP should go from building mutual trust → sharing mutual benefits → creating shared values, and partnership goals should move from securing industrial peace → sharing in improved performance → reinforcing innovation capacity. In order to strengthen the capacity of innovation, labor and management's commitment to workplace learning is of utmost importance.

	Mutual trust	Mutual gain	Increased innovation capacity
Background	the limitations of opposing industrial relations the pursuit of cooperative industrial relations (compromise) compromise between labor and management	economic crisis and fierce competition decrease in collective bargaining and decline in union organization rate (cooperation) labor-management cooperation	progress of the Fourth Industrial Revolution due to aging spread of social responsibility (competitiveness) labor-management competitiveness
Special features	Introduction of management participation program Introduction of profit distribution program	Strengthening autonomous work organization Strengthening non-union representation system	corporate (workplace) innovation and on-the-job learning Responsible management to internal and external stakeholders
Key examples	conflicting union workplace	high-performance work organization workplace	global leading workplace
Policy tasks	inadequate long-term trust compromise at the industry, regional and national levels	company-oriented benefits and weakening union role strengthening work council system	not all industries spread systematic consulting and training



The staged models above build on each other, and are dependent first on mutual trust, next on balanced gains, and finally on the integration of learning. By integrating aspects of workplace innovation evolution with models of social responsibility development, we can foresee a virtuous circle that may revitalize LMP, which is the cornerstone of labor-management mutual trust. At the national level, efforts should be made to supply and develop various levels of institutional support and programs for each model, and track the evolution and progress of firms that engage with such programs.

For example, automobile conglomerates should not only develop trust-building programs for company-wide labor-management cooperation, but also to think of innovation as not merely a production-technology endeavor, but also a program for the corporate managerial sphere, like improving equity of management participation and profit distribution in cooperation with relevant automobile enterprise and labor unions, for example. Furthermore, standards for LMP and the virtuous circle of workplace innovation could be expanded to parts suppliers and other contractor firms.

Participation	Cooperation	Innovation
Develop and activate various participatory programs with the goal of building trust through participation	Introduction and activation of the system that can enhance the enterprise productivity and the quality of working life at the same time	Enhancing the ability of labor and management to pursue change jointly in a new environment
Works council, participation in management, distribution of performance	Reduction of working hours, flexible working system, reorganization of wage job system	Workplace learning, social contributions, social agreements
Building infrastructure for collaboration and innovation through building trust	Producing the concrete result of trust through the possibility of compatibility between productivity and quality of life	Stocking mutual trust capital between labor and management for future and support of stakeholders through innovation and responsibility

## 5. Conclusions

Korea's conflict-ridden employment relations firmament has made poor soil for LMP to flourish. Especially, since Korea's unionism is enterprise-driven, trust-undermining conflicts are widespread and cooperation seems off the labor-management agenda. The Korean economy's long-standing structural issues, such as the monopolistic behavior of large corporations that disguises a need for productivity improvements and innovation, have not helped the cause of workplace innovation. At the same time, marginally profitable SMEs lack the motivation for workplace innovation, even where unions exist.

Since the Asian financial crisis, Korea's government seems to have recognized the limitations of a mass production-oriented economy and related systems. However, government innovation initiatives had limited impact without the active participation of unions. Therefore the government's new focus is on a dual program of workplace innovation with labor-management partnership programs since the 2000s.

LMP started with a focus on building trust and building infrastructure to create a cooperative work atmosphere, but soon workplace innovation programs were added as a key component of innovation program success. Yet even after more than a decade, LMP and workplace innovation programs have gained no self-sustaining momentum outside of government initiatives, suggesting that in Korea at least, there is no spontaneous labor-management development in trust building, workplace innovation, and social value creation.

Despite large corporations and government agencies also perceiving the threats posed by

Fourth Industrial Revolution, the Korean production system is still dominated by large-scale facilities and long-lead time production, while the market dynamics leave no room for mutual gain but instead push cost-cutting and price competition. It can be said that Korea has not escaped an immature state of enterprise innovation. In order to climb out of this foxhole, workers and unions threatened by the looming Fourth Industrial Revolution must be encouraged to participate in the innovation process of enterprises, prioritizing the goal of partnership for innovation. Their survival depends on it.