

**II. Developing Key Performance Indicators and
Productivity/Performance Benchmarks
for Performance Based Remuneration Systems in Korea**

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1.0 Korea's Economy

Since the early 1960s, Korea has achieved an incredible record of growth and integration into the high-tech modern world economy. Four decades ago, GDP per capita was comparable with levels in the poorer countries of Africa and Asia. In 2004, Korea joined the trillion dollar club of world economies. Today, its GDP per capita is equal to the lesser economies of the European Union. This success through the late 1980s was achieved by a system of close government/business ties, including directed credit, sponsorship of specific industries, and a strong labour effort. The government promoted the import of raw materials and technology at the expense of consumer goods and encouraged savings and investment over consumption.

The Asian financial crisis of 1997-99 exposed longstanding weaknesses in Korea's development model, including high debt/equity ratios, massive foreign borrowing and an undisciplined financial sector. Growth plunged to a negative 6.9% in 1998, then strongly recovered to 9.5% in 1999, and 8.5% in 2000. Growth fell back to 3.3% in 2001 because of the slowing global economy, falling exports, and the perception that much-needed corporate and financial reforms had stalled. Led by consumer spending and exports, growth in 2002 was an impressive 7.0%, despite anemic global growth. Between 2003 and 2005, growth moderated to about 4%. A downturn in consumer spending was offset by rapid export growth. The GDP and GDP per capita of Korea is as follows:

Figure 1 : GDP and GDP per Capita of Korea

GDP and GDP per Capita of Korea	
GDP	US\$ 679.67 billion
GDP Annual Growth	4.64%
GDP per capita	US\$ 12,742.51
GDP per capita growth	4.14%

(source : IPS National Competitiveness Research 2006 Report)

2.0 Towards Labour Market Reforms

In 2005, the government proposed labour reform legislation and a corporate pension scheme to help make the labour market more flexible, and new real estate policies to cool property speculation. Moderate inflation, low unemployment, an export surplus, and fairly equal distribution of income characterize this solid economy. Since the Asian financial crisis of 1998, the Korean economy opened up quickly to the outside world and Korean companies were pressured to downsize their workforce due to low profitability and excessive debt ratios. Many companies which traditionally followed the Japanese system of life-long employment, in a closed internal labour market switched to the performance based system practiced in United Kingdom and the United States of America.

Companies admitted that the seniority-based wage structure, which do not link wages to productivity and or performance was affecting competitiveness and companies financial situation is affected. In the current economic situation, characterized by shortened life cycle of knowledge, companies need to

continuously restructure to remain competitive. This would involve displacement of non-performing workers. The Government however is under pressure to provide social support to those who have been forced to leave their jobs and address the issue of an aging working population. This had created a conflict of interest between companies and the Government.

There is a need for collaborative efforts between industries and the Government in such a situation. For the industry, it is urgent that they flexibly implement and pursue a performance-based wage system to resolve the management issues created by life-long employment. To initiate this, there is a need for the Government to initiate provide administrative support and financial incentives to induce businesses to adopt such a system. However the issue of mandatory retirement age need to be first resolved before the performance based system can be successfully implemented. This would involve investment in training and retraining of retrenched workers so that they can be re-employed more easily into the labour market.

An alternative would be to ensure the mandatory employment of middle-aged workers and extend their employment in a seniority based wage structure by introducing the “wage-peak system”. This system adjusts the wage level of middle-aged employees lower in accordance with their productivity. This could bridge the conflict between labour and management. Different systems are being used in different situations to suit the needs of the environment. The mandatory retirement system is being used in Korea as a means of employment adjustment in a situation of congestive personnel management and under the pressure of wage costs within a closed internal labour market structure. It also implied that the labour unions could have tacitly agreed to this situation. Therefore there is indeed a trend towards the implementation of a wage system that is linked to productivity and or performance to enhance competitiveness and ensure employment stability.

3.0 Employment Issues

3.1 Aging Working Population

Among the Labour Market Changes² is the issue of the aging working population and youth unemployment. The recent employment-related issue that has risen to the forefront in Korea in relation to Korea's aging population is the mandatory retirement system and the transition to a system that does not consider age as a criterion for personnel management. Two economic considerations could be raised with regard to this issue. First, there is the need for a more efficient use of the aging population as human resources given the current demographic changes where the aging population grows larger and the number of youth drops. Further, with globalization, more importance is put on the efficiency of flexible employment and the rapid adaptation to external shocks rather than efficiency from nurturing firm-specific human capital through life-time employment. Therefore, the second consideration is the need for labour market flexibility in this market environment.

To draw up laws and institution which promote the employment of the aged, there is a need for comprehensive plans and policies within the overall cycle. Considering the low status of middle-aged and aged employees in the labour market, business should not be the sole player to undertake the responsibility of aged employment, and neither can the government take matters entirely into its own hands. Given the features of the middle-aged and aged labour market and the lack of a multi-lateral system to ensure security for the old aged, it is imperative to create laws and institutions which can address the issues faced by aged employees from a comprehensive perspective. While aged population of today find much of their support coming from the National Pension Scheme, retirement pay, private pensions, savings and help from their children, these alternatives are not sufficient. Therefore, there is a need for policies to pursue short- and long-term plans in order to promote the employment of the aged. This

² KDI Annual Report, Feb. 2005

would include a comprehensive policy direction for the seniority-based wage system, the wage peak system, retirement pay, and old-aged pension in relation to the paradigm of the Japanese senior employment law, as Japan and Korea share a similar labour environment.

3.2 Youth Unemployment³

While the aging population is a concern for business fearing long-term labour shortage, the recent increase in youth unemployment has provoked public criticism on poor quality labour supply. The rate of youth unemployment rose from 4-5% in the mid-1990s to 12% in 1998, and has since declined to around 6-8% in the 2000s. In particular, the share of young population in the unemployed workers has exceeded 50% in recent years.

Youth unemployment is important in two respects. First, young workers accumulate their human capital through learning-by-doing during the early stage of their career. Thus being idle when young means less human capital later on, and it eventually reduces their productivity throughout their career. Second, a worker-job match is an important component in labour productivity, and job shopping during the early stage of a worker's career is an important mechanism through which the worker can improve his/her productivity match. Being idle during this stage means less-searching, and thus a lower productivity match.

One study results indicate that sectoral changes in employment and output have affected aggregate labour demand in favour of young workers, which rules out the possibility that youth unemployment has increased due to demand deficiency. The further supply of young workers has steadily fallen due to lower birth rates and increased education, which also rules out a simple supply explanation. There is a possibility, however, that the rapid educational upgrading among the young has caused a qualitative gap between labour demand and supply. The

³ *ibid*

rapid increase in college graduates are absorbed in the labour market mostly through occupational downgrading during the transition period, but the highly educated young workers may have not yet sufficiently adjusted their reservation wages to accept such a downgrading. This, though temporarily, may account for a part of the increase in youth unemployment.

More importantly, however, one will have to turn to institutional factors to explain most of the increase in youth unemployment. It is young “new” workers, not just young workers that suffer from fewer job opportunities. One study findings indicate that the exit hazard from unemployment to employment has fallen only among young “new” workers who do not have prior work experience. Further, the share of the young population among newly created jobs has been stable, but the share of young “new” workers has fallen. That is, new jobs are increasingly allocated to young workers with prior work experience, and that the increase in unemployment is concentrated among those who newly enter the market. It is also believed that high and fast-rising employment costs are the major causes for the increase in youth unemployment.

The rate of new job creation tends to be lower in the sectors with high wage growth. One interesting finding is that fewer jobs were destroyed in sectors with high wage growth rates. Given that high wage growth rates are associated with fewer new jobs, it can not be said that the phenomenon has been caused by demand shift. Instead, it must be interpreted as implying that employment adjustment was more difficult in sectors with higher wage growth rates. It also can be said that sectors with higher wage growth prefer the young workers with prior work experience.

4.0 Outlook of Industrial Relations⁴

Industrial relations in Korea have undergone rapid changes. From July 1987 till September 1987, a series of strikes broke out across the country. The so-called, "1987 workers' great struggle" encompassed 3,300 industrial disputes or more during the three months. In the aftermath of the financial crisis in 1998, workers went into a general strike, opposing the restructuring at workplaces and the revision of labour laws aimed at permitting layoff. Experiencing such extreme conflicts, more and more workers and employers began to realize that conflicting industrial relations were beneficial to neither of them. A consensus began to be formed on the importance of labour-management cooperation. Currently, companies operate various programs for labour-management cooperation for which the government is providing full support with keen interest. In the mid 1990s, the government started to recognize labour as partner in formulating labour policies.

Since then, labour policies have been made after consultations among labour, management, and the government through such channels as the Industrial Relation Reform Commission (1996) and the Tripartite Commission (1998). In particular, since 1998, the Tripartite Commission has functioned as a mechanism to resolve labour issues based on agreement of labour, management and the government. Along with this, basic labour rights in the public sector have been expanded with the establishment of teachers' trade union (in July 1999), over which many from home and abroad had raised questions and with the introduction of public officials' workplace associations (in January 1999). This progress has raised the status of trade unions and increased their roles. Although there remains aggressive labour movement by some trade unions of large companies, the extreme tension between labour and management shown in the early stage of labour movement is being replaced by the labour-management culture of settling disputes autonomously through dialogue and compromise.

⁴ From the home page of Ministry of Labor

The government has taken consistent stance to industrial conflicts on the basis of two yardsticks of Dialogue and Compromise and Law and Principle. Such policy direction has paved the way for an industrial relation where disputes are settled through dialogue and compromise, although in the first half of the year 2003, some major disputes broke out continually, destabilizing industrial relations. Illegal disputes have sharply decreased over the same period last year by strictly enforcing laws in accordance with law and principle. This shows that laws and orders of industrial relations are being entrenched.

4.1 Mediation System for Industrial Disputes

In the process of wage or collective bargaining between labour and management, when disputes occur between labour and management due to difference in opinions on matters related to the decision of working conditions such as wage, working hours, welfare, dismissal or treatment of workers, etc., in principle, labour and management themselves should resolve the disputes autonomously. However, in case the disputes are not settled autonomously by labour and management themselves, the parties can receive help from dispute mediation mechanism including the Labour Relations Commission in settling the disputes. The dispute mediation system in Korea can be categorized into two: the official mediation system by the Labour Relations Commission and the private mediation system by persons or groups other than the Labour Relations Commission pursuant to mutual agreements or collective agreements.

The key role of the Labour Relations Commission is to settle industrial disputes (unfair dismissals, unfair labour practices, labour disputes, etc.) that arise in the relationship between labour and management. The Commission is composed of members representing labour, management and public interest. In particular, public interest members are selected by labour and management representatives on the Commission. In addition to the Central Labour Relations Commission,

there are regional labour relations commissions in 12 major cities. The Central Labour Relations Commission is in charge of dealing with the industrial disputes which fall under the jurisdiction of two or more regional labour relations commissions and reviewing measures taken by a regional labour relations commission or a special labour relations commission. If the negotiations between labour and management fail to lead to an agreement, one of the parties may file an application for mediation to the Labour Relations Commission.

If the Commission receives such an application from general businesses, it should organize a mediation committee composed of three members each representing employers, workers and public interests, and begins mediation. In case of application from public interest services, a special mediation committee composed of three public interest members conducts mediation. In general businesses, mediation should be completed within ten days and in case of public services, within fifteen days after the request of mediation. After confirming the claims by each party concerned, the mediation committee should prepare a mediation proposal and recommend both parties to accept it. Although labour and management have a discretionary power to accept the mediation proposal, they should take part in the mediation in good faith. In case an agreement fails to be reached through mediation within the mediation period, workers can start industrial actions. Arbitration, not like mediation, is a legally binding process of settling industrial disputes. Industrial disputes are referred to arbitration, if:

- both labour and management agree to do so;
- one of the parties requests arbitration according to collective agreements or;
- a special mediation committee recommends referring disputes in essential public services to arbitration.

Once disputes are referred to arbitration, industrial actions are prohibited for fifteen days. The Labour Relations Commission organizes an arbitration committee composed of three public interest members. Because arbitration awards made by the Labour Relations Commission have the same effect as collective agreements, parties concerned must follow. If parties concerned consider that the arbitration awards rendered by a regional labour relations commission violate laws or go beyond its authority, they may apply for review of the case to the Central Labour Relations Commission within 10 days. If parties can not accept the arbitration awards or decisions subsequently made by the Central Labour Relations Commission, they can bring an administrative lawsuit within 15 days.

4.2 Promotion of Labour-Management Council at Enterprise-level

Apart from labour-management consultation through collective bargaining between labour and management, the system of labour-management council is put in place to increase productivity, enhance workers' welfare, and deal with grievance from workers. In addition, the Tripartite Commission established in 1998 functions as a channel for consultation on major labour policies at the national level. Labour-management councils have been formed at the enterprise level, with a view to promoting workers' welfare and achieving sound corporate growth through participation and cooperation of labour and management. Companies began to establish and operate labour-management councils in 1963. The Government enacted the Labour-Management Council Act in 1980, which made it mandatory for workplaces with trade unions or all business entities with more than 100 workers to set up a council.

The Act was amended in 1987 to expand the coverage to all businesses with more than 50 workers. The Act was developed into the Act Concerning the Promotion of Worker Participation and Cooperation in 1997 and enabled many more workers to participate and cooperate by establishing the following system.

The workplaces with 30 or more employees, regardless of the existence of trade union, shall establish a labour-management council. The worker member shall be elected by direct ballot of workers so as to strengthen the representation of workers on the council. In case of a workplace with a trade union composed of a majority of all workers, the trade union can select the worker member of the council. The council's role shall be strengthened by adding to the agenda for consultation, profit sharing, general guidelines for employment adjustment, management of working and recess hours, etc.

To ensure that employers implement decisions regarding key labour-management issues only after consulting the labour-management council in accordance with fixed procedures, matters which must be decided by the council have been newly established. Employers must report and explain their companies' economic and financial situation to the labour-management council. If they fail to do so, workers can request relevant information, thereby expanding workers' right to share business information.

Major functions of a labour-management council prescribed in the Act on the Promotion of Worker Participation and Cooperation are as follows:

Table 1 : Functions of Labour-Management Councils

Matters subject to resolution	Matters subject to consultation	Matters subject to report
<ul style="list-style-type: none"> ▪ establishment of a basic plan for workers' training and competency development ▪ establishment and management of welfare facilities ▪ establishment of an in-house labor welfare fund ▪ matters not resolved by the Grievance Handling Committee ▪ establishment of various labor-management committees 	<ul style="list-style-type: none"> ▪ productivity improvement and profit sharing ▪ hiring, deploying, and training of workers ▪ prevention of industrial disputes ▪ handling of workers' grievances ▪ improvement of working environments(safety, health, etc.) and promotion of workers' health ▪ improvement in personnel and labor management systems ▪ general guidelines regarding employment adjustment, such as dismissal ▪ management of working and recess hours ▪ improvement in wage payment method, system, and structure ▪ introduction of new machines and technologies and improvement of work processes ▪ establishment and revision of work rules ▪ support for employee stock ownership plans and workers' other wealth accumulation ▪ workers' welfare improvement 	<ul style="list-style-type: none"> ▪ matters regarding overall management plans and performance ▪ matters concerning quarterly production plan and performance ▪ matters concerning personnel plans ▪ company's economic and financial situation

	<ul style="list-style-type: none"> ▪ other matters relating to labor-management cooperation 	
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4.3 Background of Launch and Development of a Social Consultative Body

The government has made its efforts to establish social and economic systems for actively responding to the changing international environments and domestically developing participatory democracy. The launch of the Tripartite Commission as the first social consultative body in our history following the 1997 overhaul of labor-related laws is of great significance to the history of industrial relations in Korea. In the aftermath of the financial crisis at the end of 1997, the public consensus was raised on the necessity to form a social consultative body to fairly share burden and profits in the process of overcoming the economic crisis and of structural reform through cooperation between social partners.

Against this social and economic background, the Tripartite Commission composed of representatives of labour, management, the government and public interests was organized and has since then largely contributed to overcoming the economic crisis. The Commission also made such a large contribution to reforms in the public, financial and labour sectors that it was recognized as the most successful social consultative body in Asia. Its achievement is so great that recently it has also been acknowledged as a successful example by the ILO and Social and Economic Council (SER) in the Netherlands.

4.3.1 Development of a Social Consultative Body

The 1st period (January 15, 1998 ~): Political Consultative Body

At the end of 1997, the Korean economy was hit by a series of economic and social problems such as skyrocketing interest rates and exchange rates, lack of foreign currency reserves, reduced industrial activities and the consequential rise

in the unemployment rate. Against this backdrop, a tripartite consultative body was formed and launched to overcome the crisis at the suggestion of the President. Agenda for discussion were measures to increase labor market flexibility, adoption of joint declaration for rising above the economic crisis, etc. On January 15, 1998, the Tripartite Commission was launched with the participation of representatives of labor, management, the government, public interests, and the party officials. And on 17 January, an agreement (Tripartite Joint Statement on Fair Burden Sharing in the Process of Overcoming the Economic Crisis) containing the will of the social partners to share the burden of the crisis was pronounced.

Since then, numerous meetings were held among labour, management, the government and public interest members. On February 6, 1998, the Tripartite Commission produced the historic Social Compromise for Overcoming the Economic Crisis, which contains 90 items concerning corporate restructuring, unemployment measures, etc. By carrying out what was agreed upon since then, the tripartite partners have been establishing new labour-management relations based on participation and cooperation.

The 2nd Period (June 3, 1998 ~): An organization established by a Presidential decree

In the second period, a comprehensive framework was laid to stabilize industrial relations and effectively implement the matters agreed in the first period. But at the end of December 1998, the Korean Confederation of Trade Unions (KCTU) withdrew from the Tripartite Commission, citing the reason that the agreed matters were not being implemented. The Federation of Korean Trade Unions (FKTU) and the Federation of Korean Industries (FKI) followed suit, making the Tripartite Commission incapable for a considerable period of time. Agenda for discussion included cooperative measures for employment security and industrial relation development, and measures to overcome economic crisis.

The 2nd Tripartite Commission which started on June 3, 1998 focused its work on resolving labour-management conflicts surrounding the structural reform and employment issues and on intensively discussing various social and economic challenges and reaching agreements. Related legislative bills were produced to enhance basic labour rights such as granting teachers the right to organize, guaranteeing political activities by unions, etc. Regarding structural reforms in the public, financial and corporate sectors, more than 10 recommendations and proposals were adopted. The practices have been spreading in which social conflicts can be resolved through dialogue and cooperation rather than being expressed by clashes between labour and management or between labour and the government. In addition, the Tripartite Commission discussed cooperation mechanism to embody the Korean government's philosophy of parallel growth of democracy and the market economy and create the new industrial relations culture for the coming knowledge-based society of the 21st century.

The 3rd Period (September 1, 1999 ~) : An organization based on law

With the legislation of the related law on May 24, 1999, the Tripartite Commission started to function as a legal body composed of the general meeting, standing committee, and special committee to discuss pressing issues such as measures to improve laws and systems on industrial relations. The Commission discussed issues such as the principle and direction of restructuring of the public sector and improvement of laws, practices, and mindset for developing industrial relations. At the request of the labour circle that the Tripartite Commission be made a permanent and legal consultative body, the Act on Establishment and Operation of the Tripartite Commission was enacted on May 24, 1999. Pursuant to the Act, the 3rd Tripartite Commission was launched on September 1, 1999.

In the third period, labour, management and the government, amid more mature culture of discussion, continued to discuss each matter at each sub-committee with enthusiasm. Thanks to such an effort, the Commission drew the following

tripartite agreements on areas such as labour-management relations, economic and social policies and structural adjustment, eventually contributing to stabilization of industrial relations. The special committee on working hour reduction set up on May 24, 2000 and the committee on measures for non-regular workers set up on July 23, 2001 reached an agreement on basic directions of working hour reduction and measures to protect non-regular workers.

But they failed to reach a final agreement due to difference in opinion on details. On July 25, 2003, the results of the discussions at the general meeting up until then were sent to the government. Although labour and management failed to reach a final agreement at the Tripartite Commission, the discussions at the Commission enabled the related parties to share opinions on the pressing issues and raised public awareness of such issues. The discussions at the Commission are significant in that they have formed a consensus between labour and management on the need for new policies and their basic direction. The Tripartite Commission formed, on September 3, 2003, Special Committee for Workers in Atypical Relations;»to discuss protection measures for workers in atypical relations such as insurance salespersons, teachers of learning aid companies, etc.

The Commission will focus its efforts to devise effective protection measures by legislating labour or economic laws through fact-finding researches and comparison with the cases of other countries. In the meantime, at a general meeting on July 25, 2003, a bill on Plan of Operation of the Tripartite Commission was prepared and is being promoted to help the Commission take root as more stable and stronger social consultative body by overcoming some of the problems shown in the process of operation of the Commission since its establishment in 1997.

The agenda for discussion are expanding the discussion items to cover economic and social policies, introducing the time limit for discussions, establishing multi-level consultative channels such as the Tripartite Commission by industry or region, etc. The Korean Tripartite Commission keeps in touch with the ILO, the NESC of Ireland and the SER of the Netherlands. Visited by tripartite organizations from other Asian and European countries, the Commission is internationally recognized as a consultative body which decides social and economic policies through tripartite dialogue between labour, management and the government, a trend spreading to all over the world.

Table 2 : The Achievements of the Third Tripartite Commission

<p>Settlement of current issues in the area of labor-management relations</p>	<ul style="list-style-type: none"> ▪ Wage payment to full-time union officials and multiple trade unions at enterprise level (Feb. 9, 2001) ▪ Measures to ensure the effectiveness of collective agreements (Dec. 21, 2000) ▪ Basic agreements on working hour reduction (Oct. 23, 2000) ▪ Agreement to improve systems and practices of mediating industrial disputes(Nov. 21, 2002)
<p>Expansion of social and economic policies</p>	<ul style="list-style-type: none"> ▪ Tax reform measures to promote workers' welfare (Jul. 25, 2000) and Enactment of the Basic Workers Welfare Act (Oct. 23, 2000) ▪ Laying the foundation for enforcing the National Basic Livelihood Security Act more thoroughly (May 30, 2000) ▪ Measures to protect human rights and working conditions for foreign workers (Jun. 29, 2000) ▪ Building financial resources for workers' learning(Nov. 21, 2002) ▪ Labor income tax reform(Nov. 21, 2002)

<p>Support for structural adjustment</p>	<ul style="list-style-type: none"> ▪ Restructuring in the public sector <ul style="list-style-type: none"> - Electric power(Jun. 29, 2000), Postal service(Aug. 4, 2000), Railroads (Dec. 14, 2000) Privatization of subsidiaries of Korea National Housing Corp.(Jul. 22, 2002) Privatization of subsidiaries of Korea Highway Corp.(Jul. 22, 2002) ▪ Restructuring in the financial service sector <ul style="list-style-type: none"> - Directions for development of financial industry and financial reform (Jul. 12, Dec. 22, 2000)
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4.3.2 Basic Direction

Establishing labour-management partnership based on trust is more important than any task to respond to changing labour environment such as intensified international competition and the advent of the knowledge-based society, and realize the national visions in the 21 century: "the Northeast Asian hub" and "the era of GDP per capita U.\$ 20,000". Toward the end, the government devises and provides various labour-management cooperative projects that meet the characteristics of each workplace or industrial relation, in an attempt to help labor and management recognize each other as partner on an equal footing and achieve high performance and quality welfare through voluntary participation and cooperation.

4.4 Major Government Assistance to Labour-Management Cooperation

Financial Assistance for Labour-management Cooperative Programs is a project where the government provides assistance to programs for labour-management cooperation implemented by workers, employers, or workers' or employers' organizations by industry or region. The project is aimed at entrenching

cooperative industrial relations at workplaces by laying the financial basis so that labour and management can improve their relations in a way that best suits the conditions of each workplace and increase labour-management cooperation autonomously.

According to the project first implemented in 2003, the government selected 68 out of 317 labour-management cooperative programs that had applied for the government assistance and has provided them with assistance amounting to two billion won. Service for Diagnosis of Labour & Personnel Management was launched in 2001 and has provided services to 48 workplaces. The project is aimed at assisting labour and management to raise awareness on the problems in their relations and improve the relations autonomously. To do so, the government entrusts specialized and impartial certified labour affairs consultants to select workplaces where industrial relations are not stable, examine overall labour relations under the labour-management agreement, identify the problems, and provide measures for improvement. Program for Workplace Innovation was launched in 2000 and has assisted 291 workplaces to innovate their workplaces. The program is to assist companies, with stable industrial relations and basis for growth, to develop into workplaces with high performance and quality welfare which can develop employees' capability, increase their productivity, and enhance their welfare. To achieve the goals, the government conducts consulting for industrial relations of these model workplaces and provides them with measures to advance industrial relations, and enables the leading companies to benchmark each other. Moreover, by adopting the system of Certification of Companies with New Industrial Culture, the government has, since 2000, certified 258 companies with good results in terms of industrial relations, human resources development, and contributions to the society. In addition, "leading companies, leading causes" is published annually to introduce the examples of best industrial relations to companies of home and abroad, in an attempt to spread the atmosphere for labour-management cooperation.

On the other hand, examples of companies closed their businesses due to industrial conflicts are also distributed to raise awareness of the importance of stable industrial relations. The government will continue to develop and support a variety of labour-management cooperative projects to spread new industrial culture based on the autonomy of labour and management, so as to maximize the interests of both labour and management by establishing advanced industrial relations.

The Korea Labour Education Institute was set up at the end of 1980s to promote various education and labour-management cooperative projects on the basis of a consensus among labour, management, and the government. They agreed that democratic industrial relations should be established to meet rapid changes in industrial relations environment and that the capability to resolve industrial issues should be increased to help develop the national economy. The Korea Labour Education Institute is in charge of developing and providing education programs for union officials, workers, and public officials. In addition, the Institute contributes to the development of the industrial relations in Korea by providing individual workplace with consulting service for its industrial relation, and providing financial assistance to labour-management cooperative programs.

In particular, the government plans to review the school textbooks of primary, middle, and high schools which have an influence on the formation of one's values, with a view to rectifying the biased views on industrial relations and help youths cherish the value of labour. In addition, the government is considering developing dispute prevention programs needed to foster mediation experts in an attempt to promote dispute mediation by labour and management themselves. The government is focusing on new projects to meet the changing labour environment such as strengthening education to advance industrial relations of the public sector which has great impact on the national economy and the daily lives of the general public.

5.0 Productivity and Wage Statistics

5.1 Labour Productivity and Unit Labour Costs

Fourth Quarter and Annual Average, 2006

In 2006, the index of labour productivity in mining and manufacturing (including electricity-gas and water) was 155.6(2000=100), and the growth rate of labour productivity was 12.3%, compared to the previous year. The growth of labour productivity was due to a 10.1 % increase in output and a 2.0% decrease in labour input. The quarterly and yearly growth rates of labour input, output, and labour productivity in mining and manufacturing (including electricity-gas and water) are shown in Table 3.

5.2 Labour Productivity

In 2006, the growth types of labour productivity can be characterized as output increases and labour input decreases. The indices of labour productivity are classified for three main industries; i) mining, ii) manufacturing, iii) electricity-gas and water. For 2006, the characteristics of labour productivity growth are as follows;

(1) Mining Sector

In the mining sector, the index of labour productivity was 109.5 (2000=100), and it has decreased by 1.5% compared to the previous year. The growth was due to the 1.4% decrease in industrial production and the 0.1% increase in labour input (Table 3).

Table 3 : Trends for Labour Productivity

		%				
		I	II	III	IV	2006
Labour Productivity	Mining and manufacturing ¹	10.9	13.7	12.7	12.3	12.3
	Mining	-0.8	-6.4	-3.7	6.2	-1.5
	Manufacturing	11.5	14.4	13.2	12.7	12.8
	Electricity, gas and water	0.1	3.7	6.8	5.1	3.9
Output ²	Mining and manufacturing ¹	12.8	11.5	11.3	5.2	10.1
	Mining	3.2	-6.3	-1.9	0.6	-1.4
	Manufacturing	13.4	12.1	11.8	5.6	10.5
	Electricity, gas and water	5.6	4.9	6.1	1.0	4.4
Labour Input	Mining and manufacturing ¹	1.8	-2.0	-1.2	-6.3	-2.0
	Mining	4.0	0.1	1.8	-5.2	0.1
	Manufacturing	1.7	-2.0	-1.2	-6.4	-2.1
	Electricity, gas and water	5.4	1.1	-0.7	-3.9	0.4

¹ Including electricity, gas & water

² Output refers to the quantity of industrial production

(2) Manufacturing Sector

In the manufacturing sector, the index of labour productivity was 156.1 (2000=100), an increase by 12.8% compared to the previous year. Such growth in labour productivity was a result of the increase in output (10.5%) and the decrease in labour input (-2.1%). For some industries, the labour productivity growth has outdone the average growth rate (12.8%) of manufacturing as shown in Table 4.

In the case of Electronic Components, Radio, TV & Communication Equipment & Apparatus, the growth of labour productivity has been affected by the rapid increase of output (industrial production) at over 25%. In the case of Tobacco, Sewn Wearing Apparel & Fur Articles, and Coke, Refined Petroleum Products & Nuclear Fuel, the growth of labour productivity has come from the increase in

output and the decrease in labour input. In the case of Computer & Office Machinery, Tanning and Dressing of Leather, Manufacture of Luggage & Footwear, the growth of labour productivity has come from the decrease in output and the more decrease in labour input.

Table 4: Major Sectors with an Above the Average Growth Rate of Labour Productivity in Manufacturing

	Labour Productivity	Output	Labour Input
	%		
Manufacturing	12.8	10.5	-2.1
Electronic Components, Radio, TV & Communication	18.8	25.2	5.3
Sewn Wearing Apparel & Fur Articles	26.1	8.2	-14.2
Computer & Office Machinery	19.5	-0.1	-16.4
Tobacco	19.1	11.8	-6.1
Coke, Refined Petroleum Products & Nuclear Fuel	17.9	1.2	-14.1
Tanning and Dressing of leather, Luggage, Footwear	16.5	-0.5	-14.6

¹ Output refers to the quantity of industrial production

(3) Electricity, gas & water Sector

In the electricity, gas & water sector, the index of labour productivity was 143.8 (2000=100), an increase by 3.9% compared to the previous year. The growth rate was 4.4% for output, and 0.4% for the labour input as seen in Table 3.

5.3 Output

The quarterly growth rates of output (industrial production) for the main industries are also shown in Table 3.

- i) Mining (-1.4%)
- ii) Manufacturing (10.5%)
- iii) Electricity, gas & water (4.4%)

In terms of the industrial structure the output growth rate for the heavy-chemical industry was 12.6%, and that of the light-industry was 1.1%, compared to the previous year. In terms of firm size, the output growth of large business was 13.4%, and that of small and medium size business was 5.3%. Furthermore, the output growth of the IT sector was 23.6%, and that of the non-IT sector was 4.2%, compared to the previous year. To summarize, the growth rates of output tends to be higher for the heavy-chemical industry, for the large business, and for the IT sector.

5.4 Labour Input

The quarterly growth rates of labour input (including the number of labour and working hours) in the main industries are shown in Table 5.

- i) Mining (0.1%)
- ii) Manufacturing (-2.1%)
- iii) Electricity, gas & water (0.4%)

The growth rate of the number of labour was 0.9% in mining, -0.3% in manufacturing, and 1.4% in electricity, gas & water. The growth rate of working hours was -0.8% in mining, -1.8% in manufacturing, and -0.9% in electricity, gas & water. Accordingly the total labour input has decreased in mining and manufacturing (including electricity, gas & water) (Table 1). The decrease in terms of total labour input is mainly due to the decrease of working hours (-1.8%).

5.5 Value Added Labour Productivity

In 2006, the index of value added labour productivity was 152.6 (2000=100) in mining and manufacturing (including electricity, gas & water), and the growth rate of labour productivity in value added accounting was 10.1%, compared to the previous year. In detail, the growth of value added labour productivity was due to the increase of real GDP (8.0%) and the decrease of labour input (-2.0%).

The quarterly and yearly growth rates of value added labour productivity, GDP, and labour input by sectors are shown in Table 5.

(1) Mining Sector

In mining the index of value added labour productivity was 113.0 (2000=100), a decrease by 3.4% compared to the previous year. This decrease of value added labour productivity was due to the larger increase of labour input (6.3%) in comparison to the increase of output (2.7%).

(2) Manufacturing Sector

In manufacturing the index of value added labour productivity was 153.8 (2000=100), an increase by 10.8% compared to the previous year. The index and the growth rate of output (GDP) was 149.6 (8.4%), and that of labour input was 97.3 (-2.1%).

(3) Electricity, gas & water Sector

In electricity, gas & water the index of value added labour productivity was 139.5(2000=100), a decrease by 3.5% compared to the previous year. This growth rate was due to the larger increase of labour input (7.3%) in comparison to the increase of output (3.5%).

Table 5 : Trends of Value Added Labour Productivity

		%				
		I	II	III	IV	2006
Value Added Labour Productivity	Mining and manufacturing ¹	7.1	11.2	10.0	12.5	10.1
	Mining	8.2	-20.0	17.6	10.6	-3.4
	Manufacturing	7.7	11.9	10.3	13.0	10.8
	Electricity, gas and water	-1.9	1.3	3.8	1.4	-3.5
Output (GDP)	Mining and manufacturing ¹	9.5	8.7	8.7	5.3	8.0
	Mining	12.9	-4.0	1.6	1.2	2.7
	Manufacturing	9.9	9.3	9.0	5.7	8.4
	Electricity, gas and water	4.6	3.4	5.4	0.5	3.5
Labour Input	Mining and manufacturing ¹	2.2	-2.2	-1.2	-6.4	-2.0
	Mining	4.4	19.9	-13.5	-8.5	6.3
	Manufacturing	2.1	-2.4	-1.2	-6.5	-2.1
	Electricity, gas and water	6.6	2.1	1.6	-0.9	7.3

¹ Including electricity, gas & water

5.6 Unit Labour Costs

On the one hand unit labour cost which is defined as the wage cost per output has decreased by 4.7% in manufacturing compared to the previous year. Such a decrease of unit labour cost was due to the larger increase of labour productivity (12.8%) in comparison to the increase of hourly earnings (7.6%), as shown in Table 6. Some industries where the negative growth rates of unit labour costs have outdone the average manufacturing growth rate (-4.7%) are as follows;

- i. Electronic Components, Radio, TV & Communication Equipment & Apparatus (-11.9%)
- ii. Coke, Refined Petroleum products & Nuclear Fuel (-11.7%)
- iii. Sewn Wearing Apparel & Fur Articles (-9.6%)
- iv. Tanning and Dressing of Leather, Manufacture of Luggage & Footwear (-7.5%)

Thus the cost competitiveness is to be stronger, especially, in IT sector like as Electronic Components, radio, TV & Communication Equipment & Apparatus, and capital intensive sector like as Coke, Refined Petroleum products & Nuclear Fuel.

Table 6 : Trends of Unit Labour Cost in Manufacturing

	%				
	I	II	III	IV	2006
Unit Labor Costs¹	-7.6	-6.4	-7.4	24	-4.7
Hourly Famings²	3.0	7.0	4.8	15.4	7.6
labor Productivity	11.5	14.4	13.2	127	128

* percent change from same quarter last year

(1) Hourly earnings/labor productivity (regular employees)*100

(2) Nominal earnings/total hours*100

6.0 Changes of Pay Systems

Raising flexibility of compensation system is emerging as a big social issue as Korea is facing rapidly aging population and deteriorating corporate competitiveness. According to a survey conducted by Korea Labour Institute, highly educated and young employees prefer job-and-performance-based compensation to seniority-based one. The survey also found that employees like to have multi-factor pay systems. The factors may include seniority, performance, and job value. And the bonus may also be determined by performance of individual, group, and corporation.

6.1 Determinants of Pay

There are several reasons for pay differentials that are not associated with the specific skills or abilities of individual employees. The following are factors that are related to inter-industry pay differentials: characteristics of the industry product market, profitability of the industry, degree of capital intensity, and level of union density. Part of the pay differential comes from the market an industry

operates within. Generally, industries operating in less-competitive product environments pay higher compensation because of higher profit due to higher concentration ratio, entry barriers, and less foreign competition. This relationship, however, is affected by the quality of labour (for example, education) a firm may have in place.

The profitability of the industry can be used as another determinant of an industry's ability to pay high wages and, therefore, as a prediction for the existence of a wage differential. Several studies found that industries with higher profitability pay all employees a relatively high wage rate. In essence, they share some of the wealth with all employees and are thus able to be more selective in the labour market. A study of manufacturing, retailing, and distribution companies by KPMG Peat Marwick disclosed that high-performance companies pay their CEOs higher compensation than do low-performance companies.

Compensation Mix for CEOs in the U.S.

	Base Pay	Annual Incentive	Long- term Incentive
High Performance	20%	27%	53%
Low Performance	49%	13%	38%

The ratio of capital to labour is also a determinant of inter-industry wage differentials. The more capital-intensive industries pay a higher average wage than do less capital-intensive industries. In a review of data covering twenty-six years in the U.S., wage growth was significantly higher for industries with rising capital ratios.

Union density is defined as the proportion of employees covered by a union contract. The higher the union density, the greater the number of unionized employees is, and according to research, the larger the wage differential is. Union density is positively related to the wage of both union and non-union workers. The positive influence of union density is greater for non-union workers of large organizations than for those working for small organization. The perceived threat of unionization for the large non-union organizations is believed to be main reason for their high-wage policy. This is particularly true in the case of Samsung Group. Union density as a cause of inter-industry wage differentials should be approached cautiously. Research has not yet shown whether union density is a cause of wage differentials or just related to it. This caution can be illustrated by the presence of relatively high pay in the automotive industry before the industry became predominantly unionized.

Research on the inter-industry wage structure is extensive. Generally, the conclusions drawn from the research support the existence of a wage differential; employees in different industries receive different pay for jobs that are comparable. The specific reasons for the presence of wage differentials are more difficult to establish. But whatever the reasons behind them, these wage differentials have an impact on the compensation decision makers. They must take into account the industry within which they operate and the industries with which they compete in the external labour market as they attempt to exercise their discretionary power.

6.2 General Determinants and Components of Wages

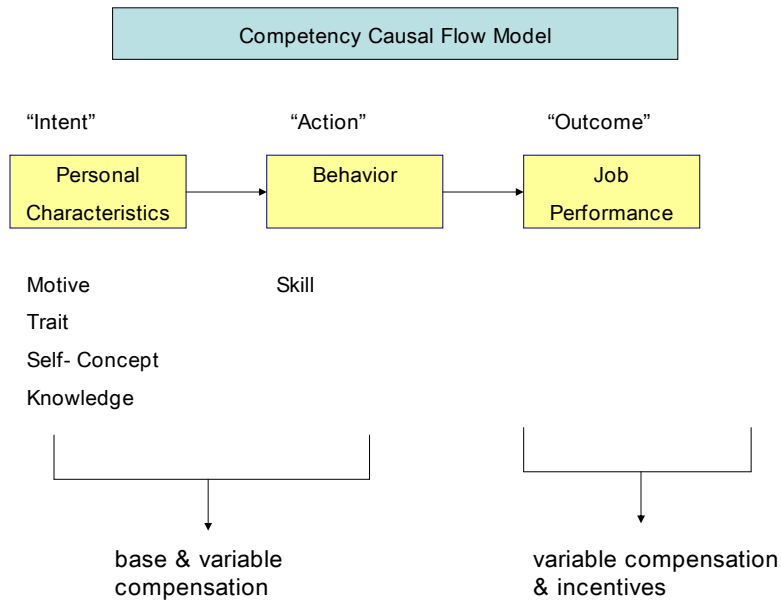
general determinants & components of wages and salary

determinants	evaluation items	reward components	remarks
job	performing duties, value of jobs, etc	base	needs job analysis and evaluation
competence	skill, attitude, leadership, problem- solving skill, planning ability, strategic- thinking, etc	variable	evaluation to be done by supervisor or 360 degree
achievement	completed projects/task/ action plan, financial achievement, etc	incentives	individual achievement is often combined with organizational performance. goal- setting process is necessary

A competency is an underlying characteristic of an individual that is causally related to criterion-referenced effective and/or superior performance in a job or situation. Underlying characteristic means the competency is a fairly deep and enduring part of a person's personality and can predict behaviour in a wide variety of situations and job tasks. Causally-related means that a competency causes or predicts behaviour and performance. Criterion-referenced means that the competency actually predicts who does something well or poorly, as measured on a specific criterion or standard. Examples of criteria are the dollar volume of sales for salespeople or the number of clients who stay "dry" for alcohol-abuse counsellors.

In other words, competencies are underlying characteristics of people and indicate "ways of behaving or thinking, generalizing across situations, and enduring for a reasonably long period of time." In the performance management context, evaluations would be undertaken for the following processes of competency causal flow model.

6.3 Competency Causal Flow Model



Corporations with multi-dimensional performance evaluation systems carry out evaluation for intent, action, and outcome. The evaluation results are basis for determining base, variable compensation, and incentives. Though corporations may take different design approaches, the typical pay systems would be linking base and variable compensation with personal characteristics and behaviour. Incentives and/or variable compensation would be linked with job performance.

7.0 Trend of Performance Management Systems in Korea

7.1 Performance Management Systems (PMS) Trend

7.1.1 Industry Level

- In the 1970's, the private sector is leading the PMS development.
- The public sector, ministries and government divisions are found to be lacking in productivity.

- The government began subjecting public sectors to evaluation.
- The public sector used the private sector as a benchmark – a result of government initiative.
- The public sector is adopting the PMS of the private sector. Naturally the demand for consulting and educating is increasing.
- The management practices of the private sector are spilling over to the public sector.
- Today bureaucrats are changed and have a great evaluation system.

7.1.2 Corporate Level: Basis of PMS

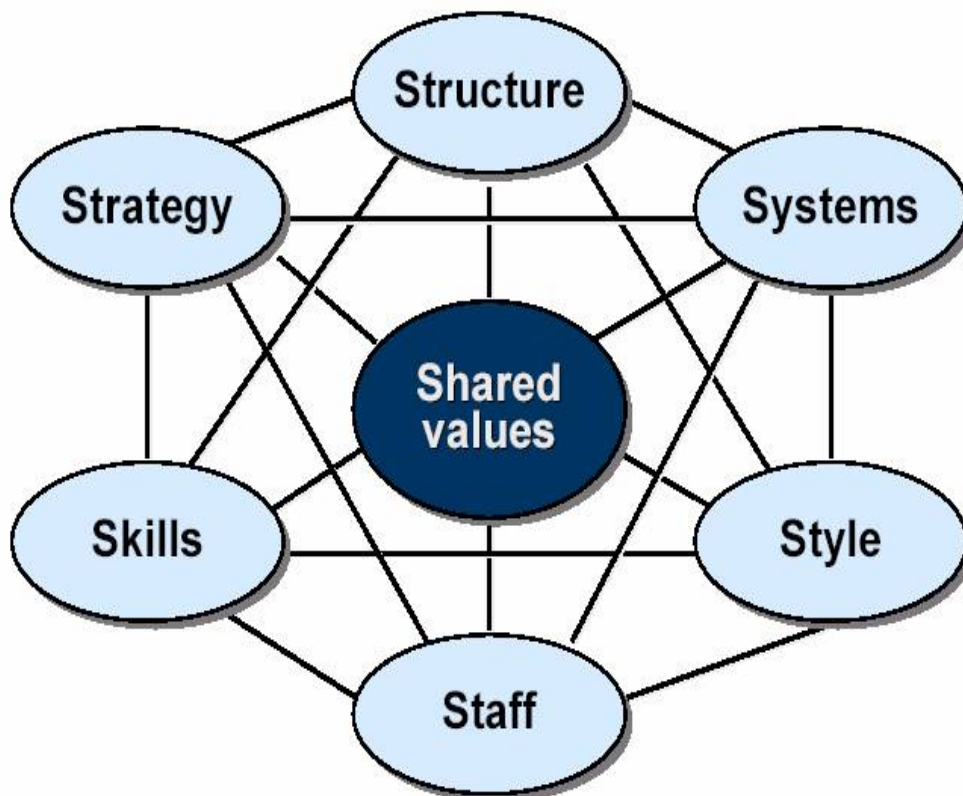
- The resource-based perspective is increasingly gaining support from academia and consultants in analyzing firm competitiveness vis a vie the competitive forces perspective.
- From the resource-based perspective, firms are heterogeneous with respect to their resources/capabilities/endowments. [“Dynamic Capabilities and Strategic Management,” Teece, D.J. et al. Strategic Management Journal, Aug. 1997, pp. 509-533.]
- What a firm can do is not just a function of the opportunities it confronts; it also depends on what resources the organization can muster. [ibid]
- The control over scarce resources is the source of the profit. Therefore skill acquisition, the management of knowledge and know-how, and learning become fundamental strategic issues. [ibid]

7.1.3 Common Structure of PMS

- The PMS divides into two levels: the team level and the individual level.
- The team evaluation is based on the achievement.

- The individual evaluation has two components: achievement and competence.
- The remuneration is tied to the evaluation result.
- The McKinsey 7-S model is an example of a performance measurement system. The components of the McKinsey 7-S model are shown in Figure 1.

Figure 1: The McKinsey 7-S Model



8.0 Case Studies of Performance-Based Remuneration

Two firm level case studies to demonstrate the implementation of the Performance-based remuneration are described. The two companies are:

1. LG Electronics
2. Taihan Corporation

8.1 Case of Korean Corporation: LG Electronics

8.1.1 History and Vision of LG Electronics

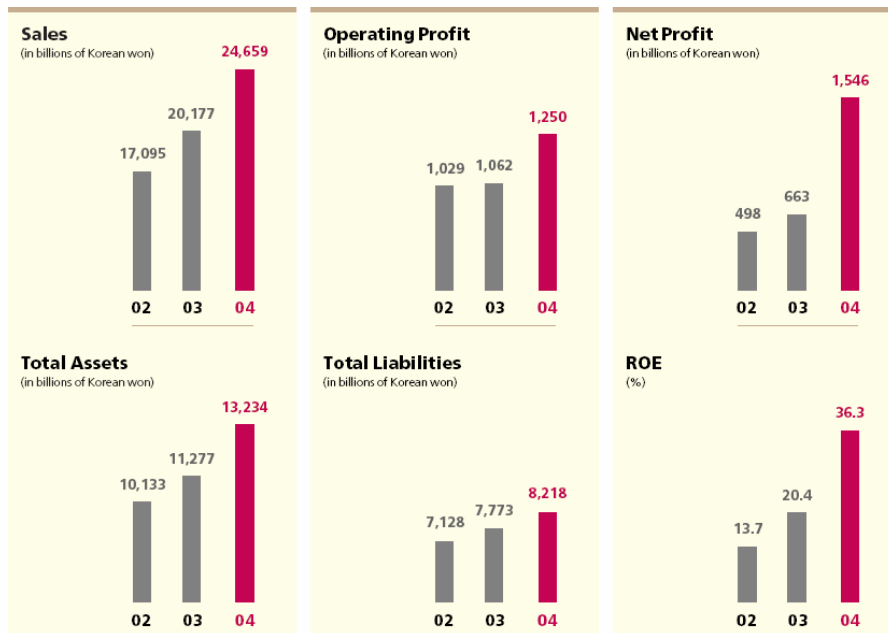
Established as Gold Star in 1958, LG Electronics has raised to the top of Korea's electronics and telecommunications industries by developing innovative technologies and products which push the state of the art. From a strong foothold at home, we have successfully advanced into international markets and have emerged as a major global player. LG Electronics is aiming at securing product competitiveness, as well as market leadership, both at home and abroad. Through heavy investment in research and development, aggressive global marketing strategies, and constant improvement of management practices,

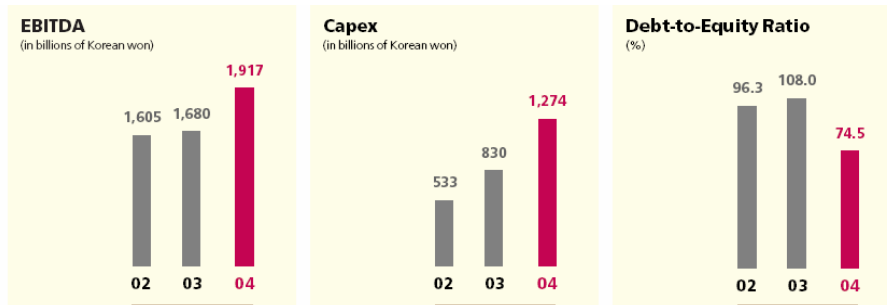
LG Electronics is breaking new ground in the global electronics and telecommunications industries. Its efforts centred on developing cutting edge digital products. This includes digital TVs, home Internet appliances, and next-generation mobile handsets. LG Electronics plans to be one of the top three electronics and telecommunications entities in the world by the year 2010. To fulfil this vision, it is focused on consolidating our competencies and fostering both mid and long-term innovations in every area of management. Human resource development, management strategies, overall organizational culture, all are being redeveloped in its pursuit of excellence.

LG Electronics has established a new vision of being among the global top 3 electronics and telecommunications companies by 2010. Mindful of this, the Company recently unveiled a guideline called "The LG Electronics WAY" to all of its employees. This guideline presents a new management system that will accomplish what is necessary to achieve the Company's vision, and ensure that ethical conduct and value will be shared by all Company employees. In 2004, with a strong commitment to the achieving of its goal, it carried out a broad spectrum of changes and innovations in every area of management.

8.1.2 Key financial results

LG Electronics achieved a net income of KRW 1.6 trillion, and total sales revenue of KRW 24.7 trillion, for the year 2004. This represented the best business performance ever reached in the Company's history. Its aggressive marketing in overseas markets of premium home appliances, digital TV, and mobile handsets, was the main factor driving the improvement in our 2004 results. These results are impressive considering the very challenging business climate in 2004.





To compare 2004 results appropriately with the previous year, LG Electronics have used pro forma full year 2002 numbers from January 1st to December 31st 2002 in the financial highlights and figures. It should be noted that it underwent a de-merger in April 2002, and its official financial statements are based on a nine-month period from April to December 2002.

8.1.3 Divisions of LG Electronics

Mobile Communication Division

Mobile Communications Division provides total information and communications solutions. It is rapidly emerging as a leader in the third generation handsets and systems following its successful breakthroughs in the CDMA and GSM handset markets. LG Electronics is seeking to lead in the global market through active marketing approaches, state-of-the-art handset development, and win-win partnerships with local telecommunications operators.

Its main products are CDMA handsets, GSM handsets, 3rd generation (WCDMA) handsets, wireless/wireline telecommunications systems, PBX, and Key Phones.

In 2004 the Division achieved KRW 9.5 trillion in total sales, and an operating income of KRW 636.2 billion. Total sales and operating income increased 55% and 99% respectively over the figures for the previous year. Due to the large increase in mobile phone sales in North America and Europe, sales revenue of

mobile handsets stood at KRW 8.4 trillion, up 61%. Its mobile phone sales have sustained a growth rate of greater than 45% for five years in a row.

Digital Appliance Division

Digital Appliance Division creates innovative products that improve people's daily lives in countries around the globe. It is quickly rising to become a top force in the world market by expanding the reach of its premium home appliances. These include residential air-conditioners, microwave ovens, vacuum cleaners, side-by-side refrigerators, and drum washing machines. Its main products are Air-Conditioners, Air Cleaners, Microwave Ovens, Vacuum Cleaner, Refrigerator, Washing Machines, Dish Washers, Compressors, Motors, and Magnetrons.

Due to a strengthening export volume the Division achieved KRW 6.2 trillion in total sales, an increase of 10% over the previous year. Its residential air-conditioners have maintained its global the No.1 market share for five consecutive years. Furthermore, the microwave ovens and washing machines have become top products in the marketplace, positioning it for further growth.

Digital Display Division

Digital Display Division produces products such as digital TV, PDP and OLED, among others. It has maintained the world best in technologies such as Single Scan technology of PDP, and digital TV core technology. LG Electronics has also developed the world's best technologies in the digital display arena by developing and producing a 55 inch LCD TV, a 71 inch PDP, and the world's first 76 inch PDP TV. Its main products are TVs (PDP TV, LCD TV etc.), PDPs, Monitors, Projectors, USB memory, Flash memory cards, and OLED. Thanks to an increase in digital TV and LCD monitor sales, LG Electronics' Display Division achieved KRW 5 trillion in total sales, up 19% from the previous year. Its LCD monitors, PDP modules, and PDP TVs held the second largest share of the global market, and LCD TV's ranked in the global top 5.

Digital Media Division

Digital Media Division is responsible for carrying out advanced AV and IT businesses that embrace the manufacturing and sale of digital AV, optical storage, PCs etc. It is solidifying its position as a global leader in optical storage, DVD Players, and Home Theatre systems. It makes a concerted effort towards becoming a leader in digital convergence by developing new converged digital products, and enhancing strategic alliances with local telecom operators. Its main products are Home Theatre, DVD Recorder, MP3 Player, Optical Storage, Notebook PC, Desktop PC, and PDA. In the Digital Media Division, sales revenues came to KRW 3.8 trillion. This is a 7% decrease from last year due to the removal of the PC OEM business. Its optical storage system continued as the No.1 seller globally for seven consecutive years, and now Home Theatre and DVD Players have reached the top position as well.

8.1.4 Background of Personnel Management Principles of LG Electronics

The 1997 financial crisis helped enable Korean corporations to rethink conventional wisdom and paradigm. The old system and philosophy was deeply rooted in Confucius teachings. Hi-tech corporations like LG Electronics needs to create challenging and creative corporate culture in order to compete in global markets. The conventional seniority-based system, for one, wreaked havoc on corporate culture. It was simply not possible to survive in fast-changing environment and cutthroat competition with Confucius' hierarchical thinking. Technology development was essential and achieving technological competence required attracting and retaining competent engineers and scientists.

Before the financial crisis, corporations in LG Group maintained identical reward system. LG Electronics produced sizable profit while another LG corporation suffered loss but employees in both corporations would have received similar reward. Discontent penetrated corporation due to irrational reward systems. But the external force of national financial crisis enabled LG corporations to overhaul

the pay system. New personnel management principles be the basis of pay system were introduced.

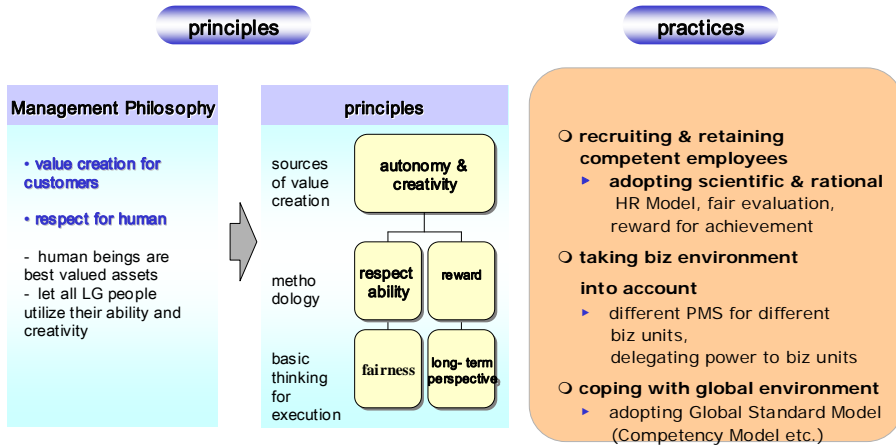
To introduce new pay systems, it required new performance management systems as well. Employees were increasingly demanded fair and rational performance evaluations. LG Electronics itself also needs to install effective system to evaluate and develop manpower. Needs for developing technological capabilities added more importance for system of identifying required manpower. LG Electronics determined to develop objective and fair performance evaluation systems. The systems will be instrumental to motivate employees by giving them adequate reward.

8.1.5 Framework of Evaluation Systems

The evaluation consists of competence and achievement or performance. Competence refers to knowledge, skill, techniques, behaviour needed to carry out jobs, and performance refers to work output.

Basic principles and practices of personnel management

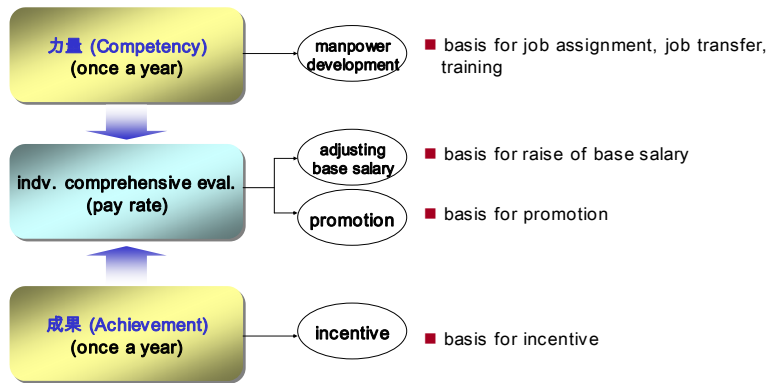
reinforcing organizational commitment; recruiting and retaining competent employees to undertake Digital LG vision by forming pleasant and challenging working environment



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composition

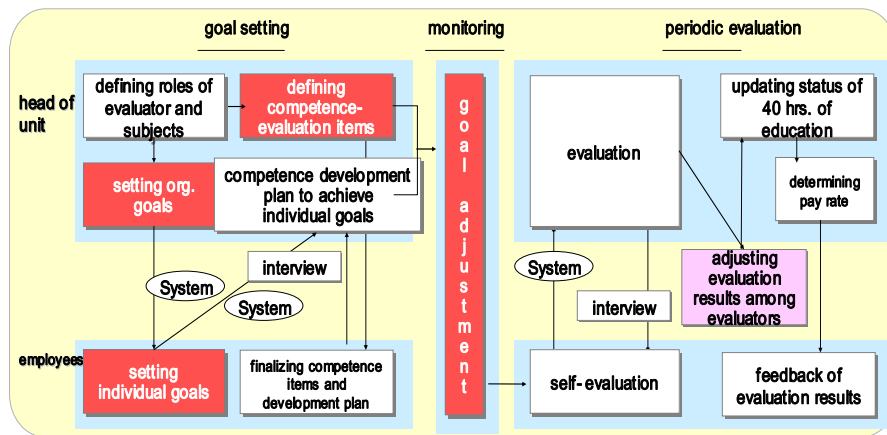


Evaluation for competency carried out once a year and its results are used for job assignment and education. Evaluation for achievement is also done once a year and its results are bases for determining incentives. Two evaluation results are consolidated into individual comprehensive results that become a basis for fixing base pay and its raise. The individual comprehensive results are also the referred data for promotion.

8.1.6 Performance Management Systems

One of the common mistakes the management commits in designing the performance management systems (PMS) is neglecting a consensus-building mechanism. LG Electronics institutionalized the communication process. The initial goal-setting is done by employees and adjustments are made accordingly through intensive discussions between evaluators and employees. Through this interaction, employees learn the systems and know what they should do to get good ratings. The evaluation results are fed back to rates in due course. Though the exercise may be time-consuming, evaluation transparency is ensured.

When the pay systems are determined solely by the achievement, the short-term perspective may become prevalent in the organization. People may neglect many things for short-term yield. To prevent this, LG Electronics has the Competency-Based Model in place. The Competency-Based Model consists of competency components that may not directly related to short-term gain but have importance for long-term corporate competitiveness.



- setting org. goals : reviewing current org. Mission/Role and setting performance indexes and work lists
- setting indiv. goals : setting goals for performance indexes along w. action plan
- defining competence-eval. items : defining competence-eval. items by the 1st evaluator
- monitoring : mid-evaluation to adjust individual goals
- periodic evaluation : adjustment of evaluation results to ensure fairness and validity

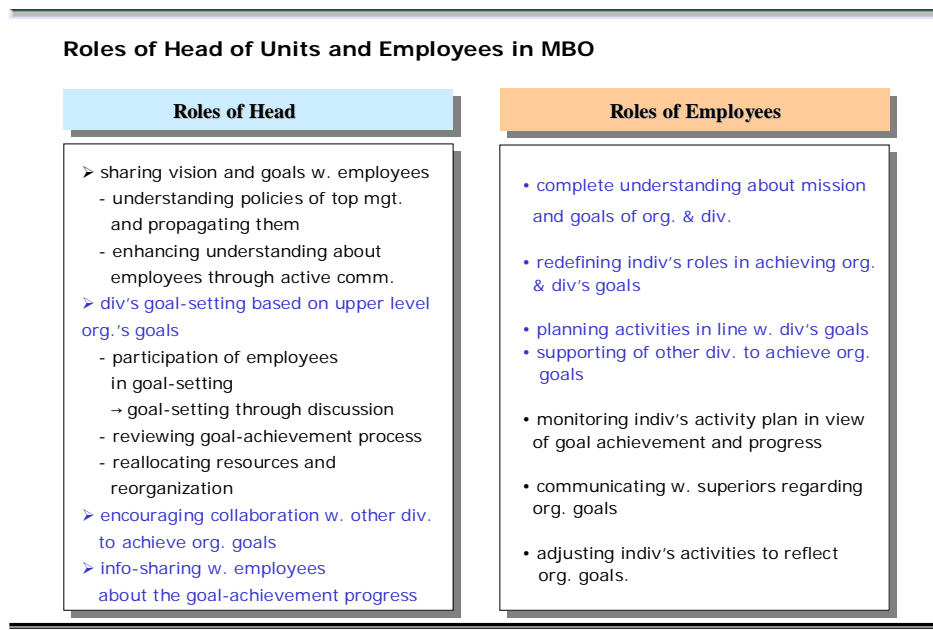
It has four categories of managerial competency, leadership competency, professional quality, and technical competency. Each category has four to seven competency elements. Some elements are defined as core competencies that must be included in evaluation of individual competency. Elements other than core are optional.

8.1.7 Different Roles of Management and Employees

To make PMS work, management and employees should perform their given roles. The main responsibility of management is communication. Communication is a bridge linking evaluators and employees. No matter how good the systems is, it would fail, if it is not accepted by employees,. Management should make continuous efforts to propagate what the organization is aiming for. It also encourages participation of employees in setting their

divisions or departments' goals. When needed, it also help employees set goals. Management should not take all responsibilities. Responsibilities should be shared among management and employees.

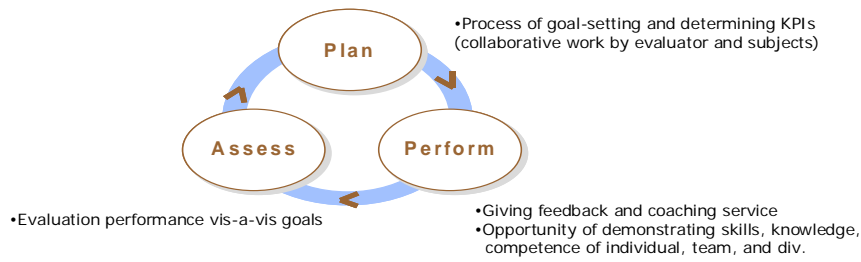
Employees understand vision and strategies of organization and division/ department and set their own goals. Action plans to achieve their goals must be put forward.



8.1.8 Process of Performance Evaluation for Division/Department

The evaluation process is basically following the Management-By-Objective (MBO). Goals are set by employees and achievement vis-à-vis goals are compared.

Carrying out performance evaluation founded on MBO



※ example of goal-setting

NO	Objective	KPI	Previous Result	Target	Action Plan	Weight	Rate
1	improving evaluation objectivity	satisfaction level for evaluation systems	3.17	3.30	<ul style="list-style-type: none"> suggestions for improving systems((Feb. ~ March) application of suggestions(4~ 6) survey on satisfaction (July) 	60%	
2	Improvement of evaluator's evaluation	Completion Rate of Education	0%	50%	<ul style="list-style-type: none"> Dev. of program for evaluator (Mar~ Apr) Carrying out education (April~ Oct.) Survey on implementation of education results (May~ Dec.) 	40%	



To illustrate how the system work, one example of evaluation for a supporting department is shown on the slide. The department is setting objectives of improving evaluation objectivity and evaluators' capability. KPIs are set for objectives and action plans are formulated along with weights. Ensuring objectivity is a key to success. Every objective must be described in detail and the measurability should be checked. Formula must be developed so that evaluation results can be provided in numbers. Since a similar approach is taken for evaluating achievement of individuals, no explanation is given for individual evaluation.

8.1.9 Competency Evaluation for Individual

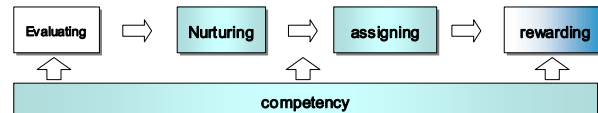
In theory, a competency is an underlying characteristic of an individual that is causally related to criterion-referenced effective and/or superior performance in a job or situation. Academia is using the term of competency with a comprehensive meaning, that is, it includes personal characteristics, behaviour, and performance. LG Electronics uses the term in a more confined way. The competency excludes performance or achievement. LG Electronics makes distinctions between competency and achievement and has more weights on achievement. Having competency (behaviour and characteristics) reflected

overly on evaluation, the evaluation becomes too subjective. To avoid this bias, LG Electronics put more weights on achievement than on competency.

Competency Evaluation

1) Use of competency

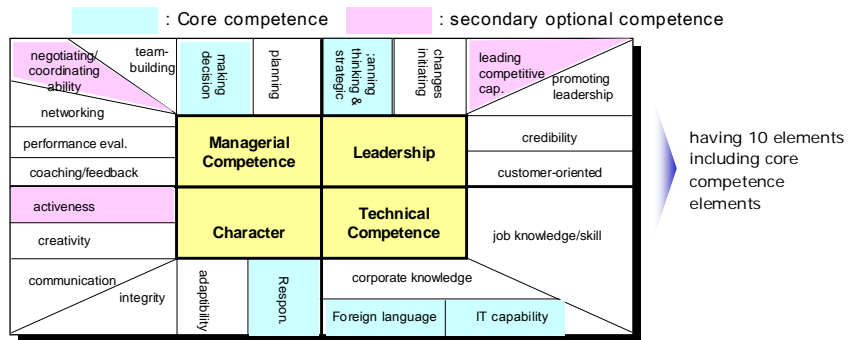
To define competency elements connected to corporate strategies and job requirements
To utilize them in personnel management



2) Selecting competency elements

- ① selecting competency elements required for job catgor. and job goups(4 job catgor., 18 job groups)
- ② having 5 skill levels for each competency element
- ③ setting expected skill level for each grade (identifying shortage or surplus manpower and planning for manpower development)
- ④ classifying competence areas as management competency, leadership competency, character competency, job competency
- ⑤ assigning competency elements of each area to org. units (common competency elements for corporate level and competency elements that each unit can select)

The evaluators must include five mandatory core competence elements, that is, competence of making decisions, sense of responsibilities, foreign language skills, IT skills, and strategic thinking. Besides five mandatory core elements, additional five competency elements should be selected from the suggested list of competence elements. Total of ten competency elements are used to evaluate individual competency level. The weights allocated on achievement and competency is 70% and 30% respectively.



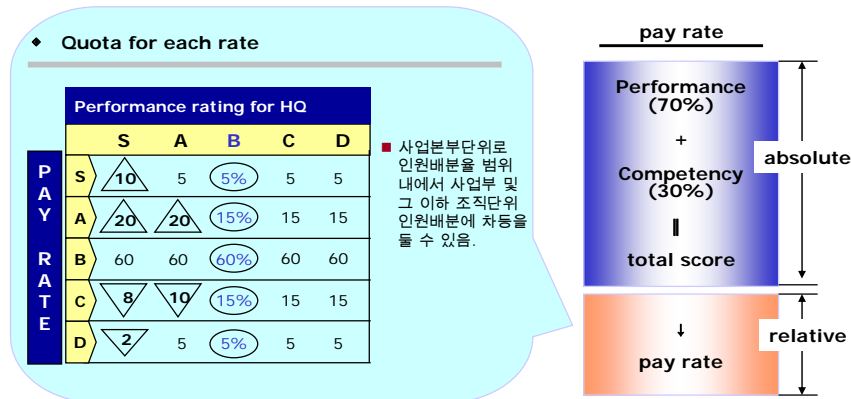
The evaluation score of achievement along with that of competency (7:3 weights) becomes the comprehensive score of individuals. For the comprehensive score, adjustment and normalization are conducted to eliminate differences among evaluators. The final score will be a basis for determining salary. The score will be reviewed both by evaluators and subjects before finalization.

8.1.10 Linking Individual Performance with Organizational Unit's Performance

Though individuals earned a good score of comprehensive evaluation, it does not guarantee the high pay rate. The determination of pay rate also depends on the performance of organizational unit which the individual belongs to. When they are rated highly, the organizational units have more quotas for high pay rate.

Linking individual performance w. organizational unit's performance

The individual salary rate will be determined by the total score and the quota for each rate.



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For example, the performance rating for a unit is S, the highest rating, then 10% of total employees of that unit are entitled for the pay rate of S. The rating for the unit is A, then the quota for the rate of S is 5% and so on. Knowing that their pay will also be dependent on the unit's performance, employees will be motivated to collaborate. LG Electronics designed the pay system in a way to encourage the teamwork as well as the individual efforts.

8.1.11 Differentiation of Pay through Pay Band

To differentiate the pay among the same grad and the pay rate, LG Electronics is adopting pay band systems. For job grades L, S, J, and A, there are three bands. For each Pay Rate, the actual raise rate will be different depending on what grade you are in and what band you belong to. Individual's new salary will be determined by the base salary of the previous year and the pay rate along with the pay band.

$$\text{Individual new salary} = \text{base salary of previous year} \times (1 + \text{pay rate \& Band mix rate})$$

example

GRADE	Pay Band	Pay Rate				
		S (5%)	A (15%)	B (60%)	C (15%)	D (5%)
S	Band 1	X* 1.5	X	X* 0.5	freeze	freeze
	Band 2	X* 2	X* 1.5	X	X* 0.5	freeze
	Band 3	X* 2.5	X* 2	X* 1.5	X (basic rate)	freeze

-For each grade, different raise rates are applied to three bands.

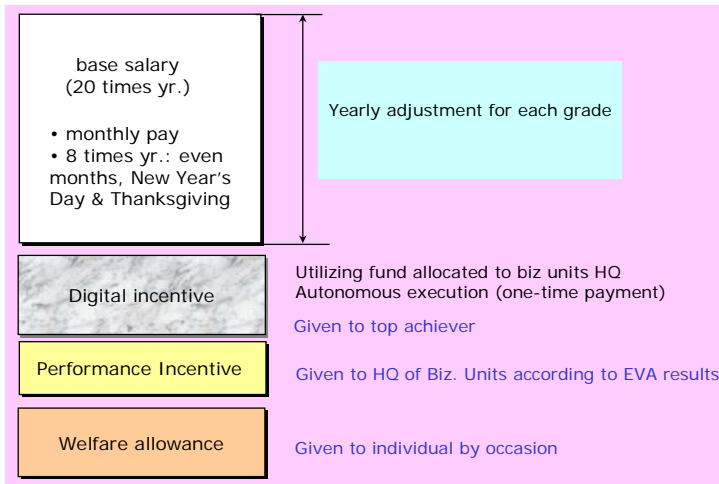
-Standard base raise rate has been set at the corporate level. But in future, only guidelines will be issued by the headquarter and each biz unit will decide raise rate that is feasible within the fund allocated to them.

grades: L, S, J, and A



8.1.12 Other Incentives for Individuals

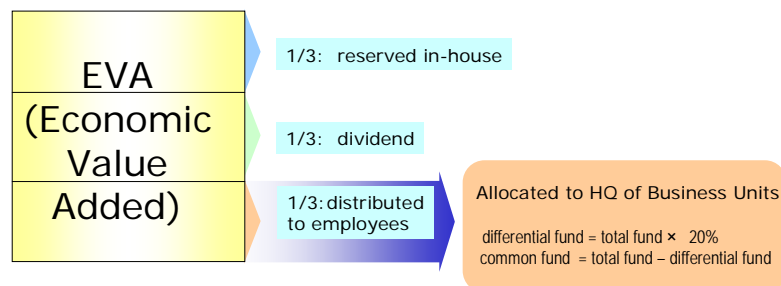
Other than the base pay, the performance incentive can be given to the Headquarter of Business Units depending on the EVA results.



EVA is net operating profit minus an appropriate charge for the opportunity cost of all capital invested in an enterprise. As such, EVA is an estimate of true "economic" profit, or the amount by which earnings exceed or fall short of the required minimum rate of return that shareholders and lenders could get by investing in other securities of comparable risk. One third of EVA of the Business Unit is used as the Performance Incentive.

Performance Incentive

1. Calculation of total fund to be allocated to HQ of Business Units
(operating profit after tax – net cost of capital invested directly to HQ) / 3
2. Fund allocated differently according to performance of HQ of Business Units
 - differential fund = total fund × 20%
 - common fund = total fund – differential fund



Presently the fund given to the Headquarter of Business Unit is allocated equally to the employees as the Performance Incentive. The Digital Incentive of which the term has no meaning is given to top achievers. This is a special incentive distributed to top employees of Business Units when the Units produce exceptional achievements. Since LG Electronics is a technology-intensive company, the recruitment and retention of highly skilled employees. To attract core manpower, LG Electronics has the incentives approved to each Business Unit. The Unit can extend stock grant, signing bonus and other incentives to maintain a pool of excellent manpower.

8.1.13 One Example of Performance Evaluation of Business Unit: Case of Digital & Display Media Division

Results of performance evaluation for Business Units affect the pay rate of individuals. Employees pay great attention to the process and the methodology of organizational performance evaluation. Therefore the performance indexes for Business Units must be set to be fair and objective. LG Electronics adopted three performance indexes namely main indexes, efficiency indexes, and strategic indexes. Main indexes reflect the financial performance. They include indexes like EVA, Sales, and market share.

Performance indexes are classified into main index, efficiency index, and strategic index. Different scales for each index will be applied.

1. Main Indexes (EVA, Sales etc)
 - 120% achievement of basic-target set and 20% growth compared to previous year will get perfect point.
 - Market share will be used as supplement to sales volume. If the change of market share is more than 5%, penalty will be imposed.
2. Efficiency Indexes (productivity, quality, O/H Cost, etc)
 - 110% achievement of basic-target and 10% growth compared to previous year will get perfect point.
 - weights for basic-target achievement and growth will be differentiated.
3. Strategic Indexes (Strategic Change Management projects, action programs for Patch Management Systems)
 - 100% achievement of target set will get perfect point. .
4. self-evaluation/ 1st evaluation / final evaluation
 - final grade will be given according to total weighted score
 - perfect grade for self-evaluation is 'A'
(A >=90, B : 90> or >=80, C: 80> or >=70, D: >70)
 - Heads of biz units who get A grade can be given the pay rate 'S'.

Efficiency Indexes are measuring performance of operational perspective. Productivity, quality, and overhead cost are included. Strategic indexes are related to change programs being undertaken by Business Units. For indexes, grading will be made through several stages of evaluation. The evaluation consists of self-evaluation by Head of Business Units, 1st external evaluation, and final external evaluation. The following slide shows how the evaluation is actually carried out for the Digital & Display Media Business Unit. It has three performance indexes and formulas are described how the scores are given.

Each department/team has its own indexes and formulas for evaluation. Supporting departments are not exception either. They also have indexed for evaluation. The evaluation results are being used for determining incentives.

Indexes and measurement scales of Biz Unit

indexes

EVA

GBU EVA
 - additional point will be given depending on fund received/given from/to headquarter

sales/
market share

Sales including internal sales (Won currency based)
 Global market share, applicable to major five biz units including optical storage, monitor, TV, A/V, PDP
 Reference of market share

Strategic
CM

at least one registered plan of executing strategic change management

EVA

<weights : 60% >

Achievement of target	>120 %	>=110 %	>=100 %	>=90 %	>=80 %	80%<
	100	90	80	70	60	50

<weights : 40% >

Year-to-year comparison	>=20 %	>=10 %	>=0%	>=Δ 10%	>=Δ 20%	Δ 20%<
	100	90	80	70	60	50

Sales Turnover

< weights : 60% >

Achievement of target	>=120 %	>=110 %	>=100 %	>=90%	>=80%	80%<
	100	90	80	70	60	50

< weights : 40% >

year-to-year growth	>=20%	>=10%	>=0%	>=Δ 10%	Δ 10%<
M/S change stability*	100	90	80	70	60
deterioration	90	80	70	60	50

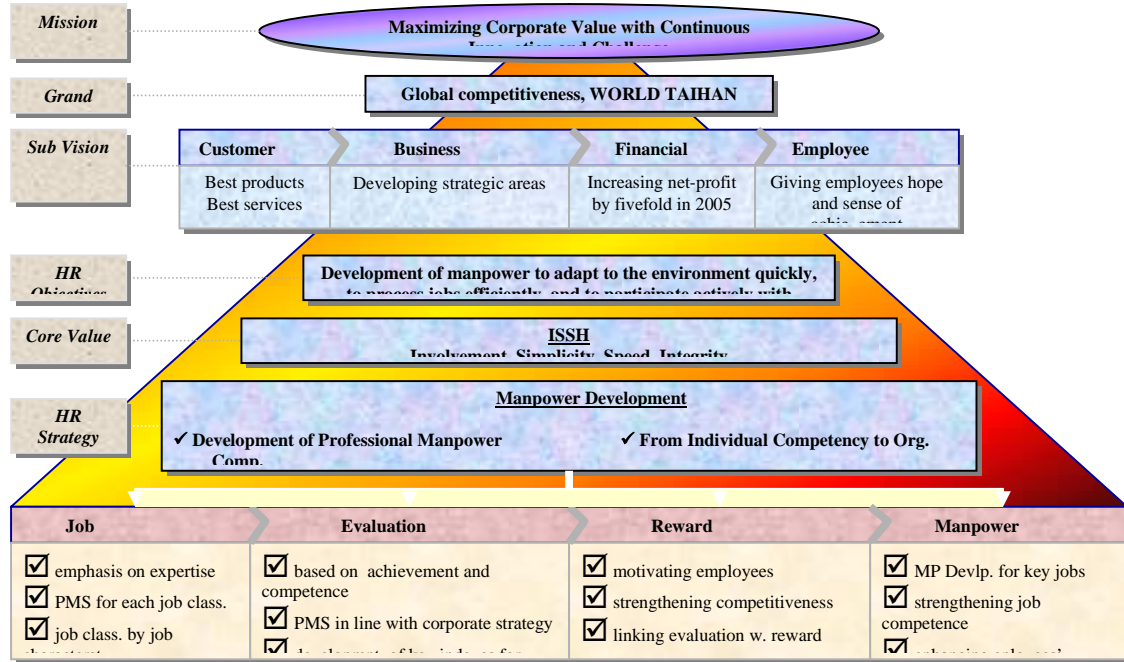
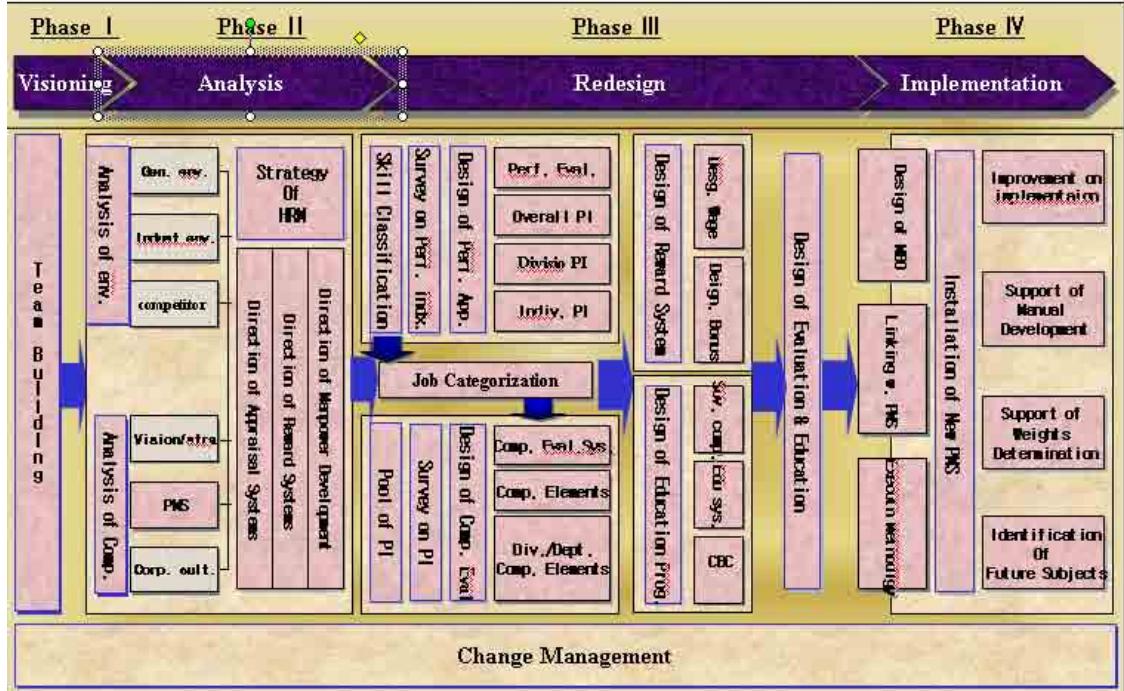
* M/S stability : change rate within ± 5%
 ** M/S is measured in units but if M/S can be measured in Won than measurement is done on 5:5

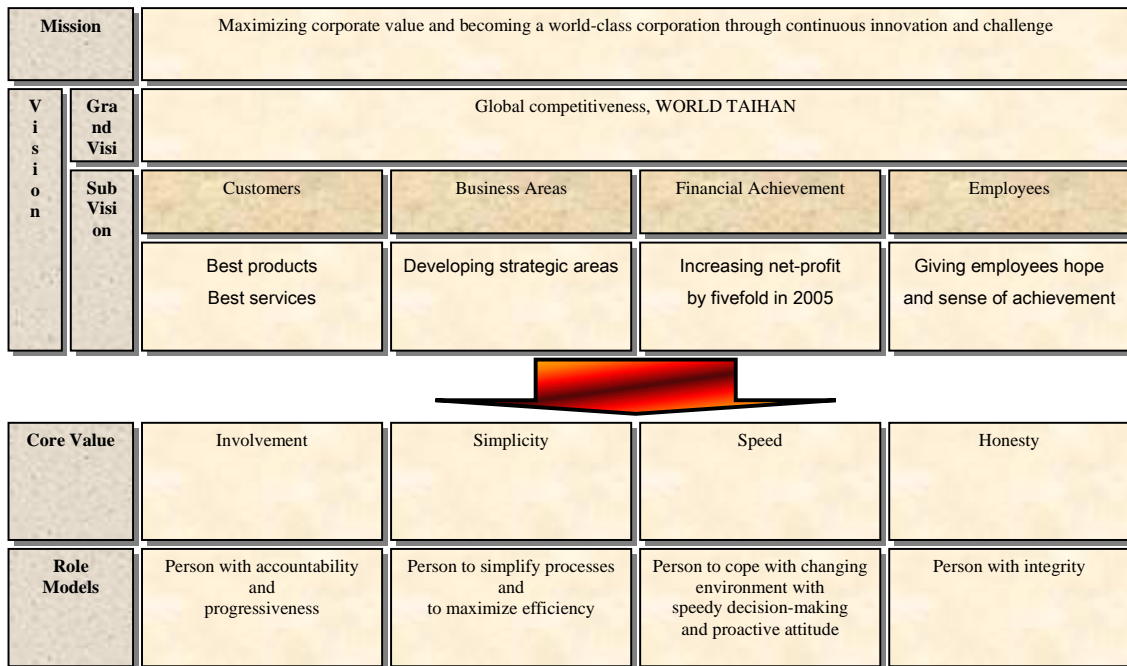
<exception> Due to retrenching businesses, it may not be possible to maintain certain level of sales and market share. In such cases, the target set could be readjusted when consensus has been reached by the subject and the 1st evaluator.

8.2 Case Study of Taihan Cable Corporation : Building Strategic HR Management (SHRM)

Taihan Corporation is an electrical company with nett sales of 2 billion USD, and a profit of 2 million. It has good labour-relations which is very important in Korea. The company uses visual presentation to explain the concept of PMS to employees. The following illustrates how the system is designed.

8.2.1 SHRM Framework



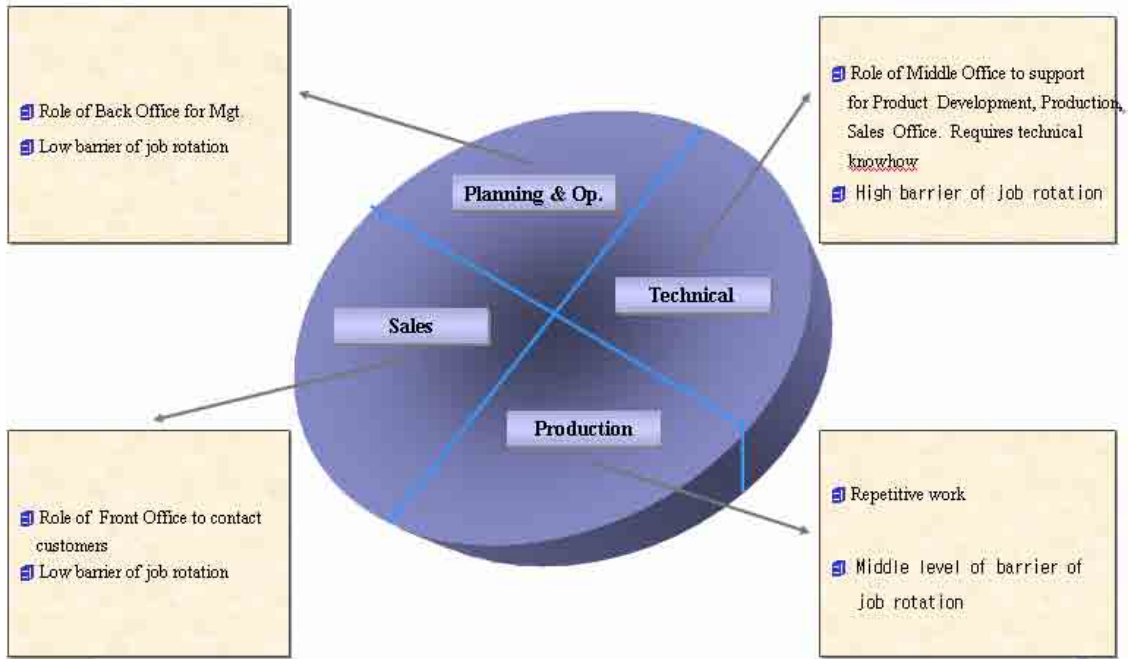


8.2.2 Job Categorization

a) Job classification

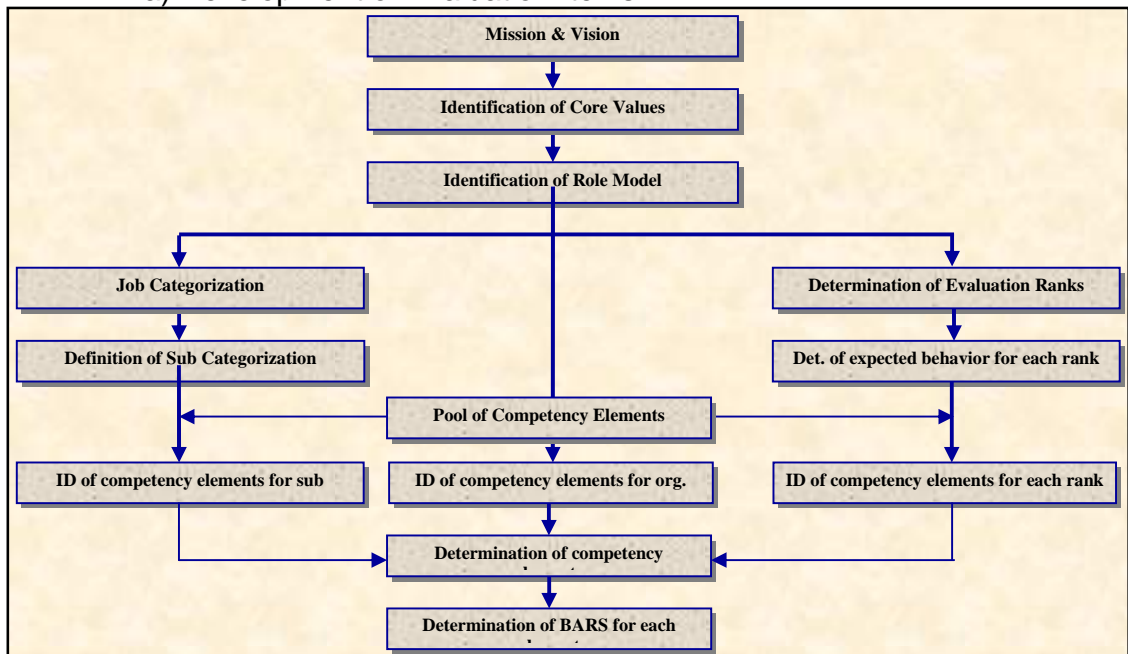
Job Cat.	Sub Cat.	Job Classification
Planning & Operation	Management	Promotion, Planning, Manpower, Education, Foreign Exchange Mgt., Cash Management, New Project Development, Patent Mgt.
	Supporting	Accounting, Tax, Procurement, IT Planning & Operation, IT Development, External Cooperation, General Mgt., Emergency Planning, Administration
	Production Supporting	Production Mgt., Material Mgt., Logistics, Safety Mgt., Environment Mgt.
Sales	Sales	Sales for Government Procurement, Domestic Sales, Overseas Sales
	Sales Management	Sales Mgt., Mgt. of Overseas Corporations and Branches, Construction Mgt.
Technical	Technical	Development of Materials and Products, Product Design, Production Technology, Construction Planning, System Planning, Construction, Quality Inspection, QM, Facility Mgt., Process Mgt., Supporting Project
Production	Production	Manufacturing

b) Job Categorization & Sub-categorization



8.2.3 Design of Competency Evaluation Systems

a) Development of Evaluation Items



BARS: behaviourally anchored rating scales

b) Characteristics of each job category

Planning & Operation	Management	Identifying the internal and external environmental changes, setting strategic direction, mapping out business plan, Planning manpower, machinery, and equipment.
	Supporting	Acknowledging various demands from departments and developing plans to coordinate and support demands.
	Production Supporting	Planning aggregate production plan, monitoring execution of production plan, assisting production staff to overcome Production problems
Sales	Sales	Identifying customer needs, forecasting market demand, taking actions to meet demand, and generating revenues
	Sales Mgt.	Supporting overall sales activities, aligning sales activities with corporate strategy, and compiling Sales-related information
Technical	Technical	Supporting sales and production through developing technologies, securing materials, and designing products
Production	Production	Engaging in daily manufacturing activities according to the production plan

c) Expected Behaviour for Each Rank

Team Leader		<ul style="list-style-type: none"> ☞ Being aware of corporate goals and urgent tasks, and directing effort of team members toward strategic goals. ☞ Acting as facilitator and coordinator for team members and developing skills and competencies of team members ☞ Achievement required rather than self-improvement.
Team Member	Senior	<ul style="list-style-type: none"> ☞ Recognizing team goals, identifying tasks to achieve goals, and creating teamwork among team members ☞ Acting as mediator to prevent conflicts between team leader and team members, and assisting team leader to achieve goals ☞ Execution capability required
	Junior	<ul style="list-style-type: none"> ☞ Carrying out tasks assigned as directed by senior team members or team leader ☞ Continuous self-improvement required

d) Competency Elements

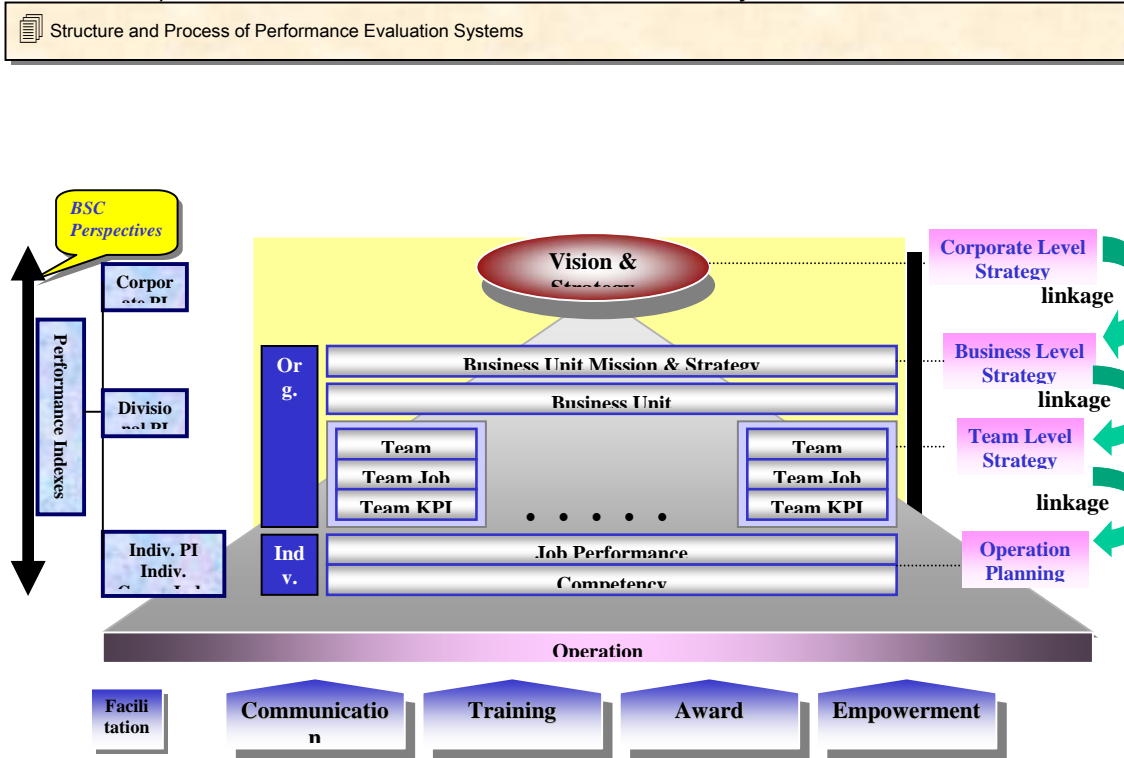
Common Elements	Exemplary	Innovation	Responsiveness	Trustworthiness		
	Planning & Operation			Sales	Technical	
Elements For Sub Cat.	Management	Supporting	Production Support	Sales	Sales Mgt.	Technical
	Mgt. Knowledge	Information Collection & Interpretation	Goal-Setting	Customer-Centric	Mgt. Mindset	Expertise
	Planning Capability	Mediating Capability	Information Collection & Analysis	Performance-Oriented	Planning Capability	Creativity
Elements For Each Rank	Team Leader		Team Members			
			Senior Level	Junior Level		
	LEADERSHIP	Execution Capability		Dependability		
	Prudence	TEAMWORK		Self-development		

e) An Example of BARS

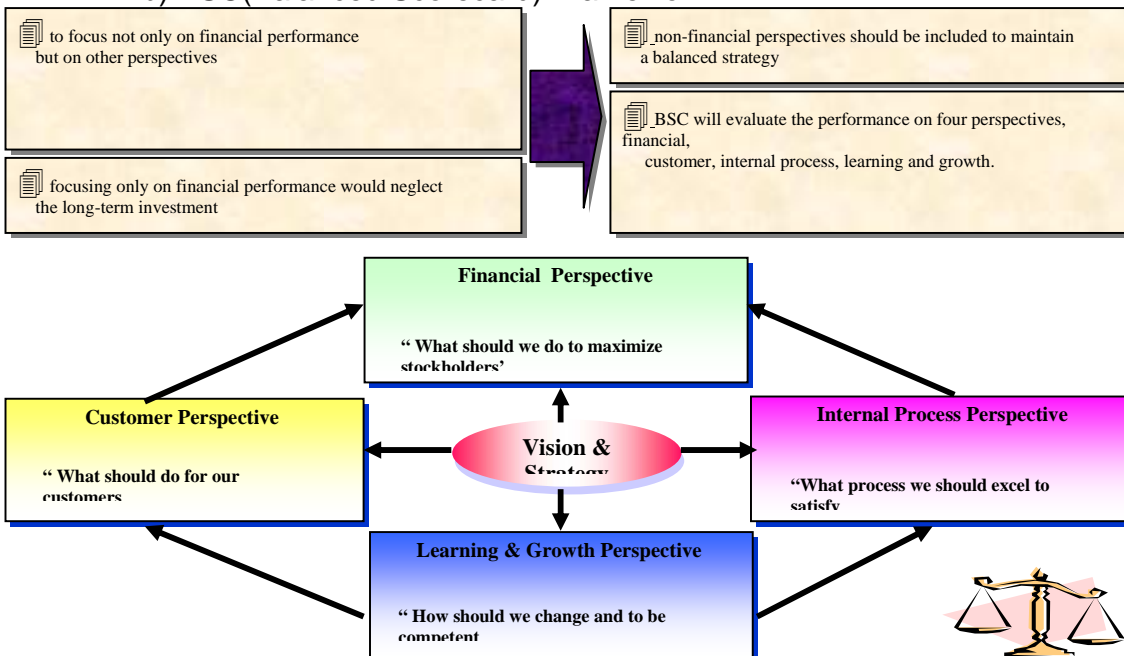
Indexe	Planning Capability	Subjects	Planning & Op. / Management
Definition	Capability of understanding directives and goals of company and team, and offering the team detail plans to achieve goals		
Evaluation	Rate	Behaviors	
	S	Subjects based on their knowledge and experience can make significant contributions to team strategy and develop an outstanding plan.	
	A	Subjects can contribute in formulating the team strategy and independently develop a feasible and realistic plan	
	B	Subjects can independently develop a plan that can be implemented with minor corrections.	
	C	Subjects do not understand team's goals and strategy, and devised plan has many drawback. Plan needs help of supervisor to be implemented.	
	D	Subjects can not develop a plan independently, and need help of supervisors with extensive corrections	

8.2.4 Design of Performance Evaluation Systems

a) Framework of Performance Evaluation Systems



b) BSC(Balanced Scorecard) Framework



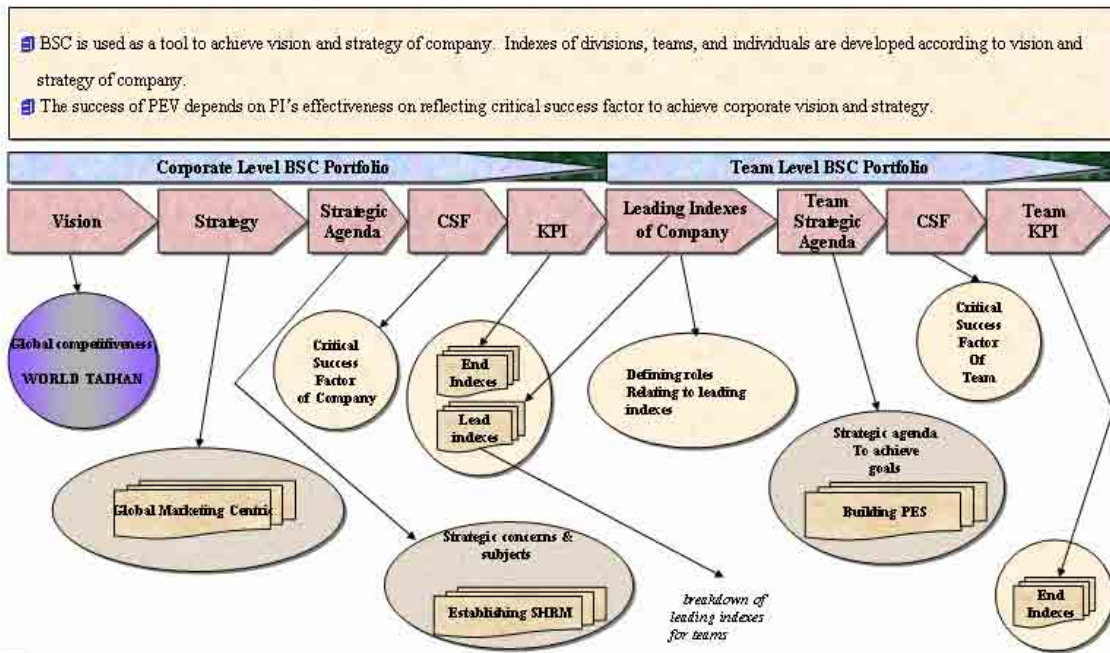
c) Definition of Taihan BSC Perspectives

<p>Financial</p>	<ul style="list-style-type: none"> ▣ Bottom line of company ▣ Indexes relating to the balanced sheet ▣ growth ratio/activity ratio/stability ratio/productivity ratio/liquidity ratio ▣ indexes of revenue, expense, profit ▣ other financial ratios
<p>Customer</p>	<ul style="list-style-type: none"> ▣ performance to increase the external customer value
<p>Process</p>	<ul style="list-style-type: none"> ▣ efficiency of internal process to increase customer satisfaction and corporate performance
<p>Learning</p>	<ul style="list-style-type: none"> ▣ activity to enable sustainable growth

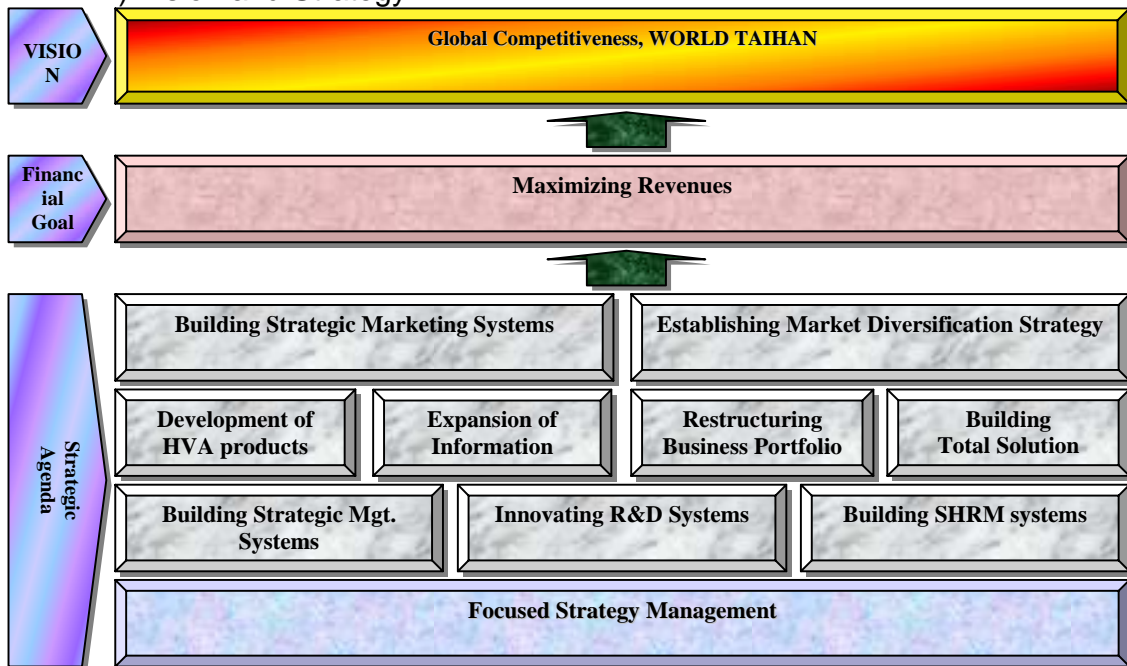
d) Design of Performance Indexes for Each Level

<p>Overall Indexes</p>	<ul style="list-style-type: none"> ▣ Indexes to embrace the future management paradigm and to link with causes and drive for performance improvement
<p>Team Indexes</p>	<ul style="list-style-type: none"> ▣ Team indexes should be linked with corporate vision and strategy ▣ Team indexes should be developed with autonomy, reflecting the mission and team's own roles
<p>Individual Indexes</p>	<ul style="list-style-type: none"> ▣ Individual indexes should be designed to increase job performance and eventually to achieve goals of company and team.

e) Taihan PEV process



f) Vision and Strategy



g) Tracking Map



h) Company KPI for BSC

BSC		FINANCIAL		Weights for financial perspective		50%	
VISION		Global Competitiveness, WORLD TAIHAN					
Strategic Agenda		End KPI			Lead Index		
weight	Strategic item	weight	End KPI	Target	weight	Lead Index	
50%	Revenue Maximization	15%	Achievement of Sales Target	\$1.3Bil	35%	Sales Growth	
		20%	Achievement of Net Profit Target	-			
		5%	Cost Reduction Rate	5% reduction	5%	Cost Reduction	
		5%	Receivable Turnover	120 days	5%	Reduction of Receivable Collection Length	
		5%	Reduction of Default Receivables	0%	5%	Reduction of Default Receivables	

BSC	CUSTOMER	Weight for Customer Perspective			15%	
VISION	Global Competitiveness, WORLD TAIHAN					
Strategic Agenda		End KPI		Target	Lead Index	
weight	Strategic item	weight	End KPI		weight	Lead Index
10%	Building Strategic Marketing System	10%	Market Share	27%	2%	Enhancement of sales competency
					4%	Market expansion
					2%	Rebuilding sales network & improving service quality
					2%	Realizing cost leadership
5%	Market Diversification Strategy	5%	Rate of New Customers	-	5%	Expansion of market share

BSC	INTERNAL PROCESS	Weights for INTERNAL PROCESS			15%	
VISION	Global Competitiveness, WORLD TAIHAN					
Strategic Agenda		End KPI		Target	Lead Index	
weight	Strategic item	weight	End KPI		weight	Lead Index
5%	Development of HVA Product	5%	Achievement rate of target for new product development (in terms of numbers)	100%	2%	New Product Development
					1%	Upgrading facility
					2%	Sales expansion of specialized products
4%	Expansion of Information Systems	4%	Effectiveness of expansion of Information systems	-	2%	Introduction of ERP systems
					2%	Strengthening technology network
3%	Restructuring Business Portfolio	3%	Effectiveness of restructuring business portfolio	-	2%	Building outsourcing network
					1%	Enhancing engineering capability
3%	Building Total Solution Systems	3%	Effectiveness of building Total Solution Systems	-	1%	Maintaining expert pool of design, engineering, maintenance, etc
					2%	Boosting System Turn-Key PJT capability

BSC		LEARNING & GROWTH		Weights for L & G		20%	
VISION		Global Competitiveness, WORLD TAIHAN					
Strategic Agenda		End KPI		Target	Lead Index		
weight	Strategic item	weight	End KPI		weight	Lead Index	
10%	Building Strategic Management Systems	10%	Effectiveness of Strategic Management Systems	-	2%	Revitalization of organizational functions	
					5%	Process innovation	
					1%	Rebuilding corporate culture	
					2%	Regrouping business portfolio through analysis	
5%	Innovation	5%	Rate of Cost Reduction	14.3% (154 ky base)	3%	Securing cost-cutting capability	
					2%	Development of new material	
5%	Building SHRM Systems	5%	Satisfaction Level of Internal Customers	-	1%	Establishment of education systems	
					1%	Seeking CDP	
					3%	Developing fair evaluation and reward systems	

i) KPI Dictionary Example

Serial number	01				
Financial goals	Maximization of Revenue	BSC Perspective	Financial	Perspective Weight	50%
KPI	Achievement Rate of Revenue Target	KPI 가중치	15%	Target	
Evaluation Formula	$\bullet (\text{Actual Sales} \div \text{Sales Target}) \times 100$				
Evaluation Method & Criteria	<input type="checkbox"/> <target achievement rate criteria> : score = score for corresponding level × index weight <input type="checkbox"/> evaluated levels for achievement rates : ● S : $100\% + \alpha <$ ● A : $100\% < \sim 100\% + \leq \alpha$ ● B : $100\% - (\alpha/2) < \sim <= 100\%$ ● C : $100\% - \alpha < \sim <= 100\% - (\alpha/2)$ ● D : $\leq 100\% - \alpha$ <input type="checkbox"/> Refer to the quantitative table				

j) Moon Chart for Teams in accordance with Lead Indexes

BSC		FINANCIAL																				
Strategic agenda	Company Lead Indexes	Moon Chart for Team																				
		STS Division					Optical/Material					Domestic Sales Division					Overseas Sales Division					
		Prod. Mot. Team	신규	기초	신규	기초	신규	기초	신규	기초	신규	기초	신규	기초	신규	기초	신규	기초	신규	기초	신규	
Revenue Maximization	Sales Increase	75		75	100	100	50	50		75	100	100	100	100	100	100	75	100	100	100	100	75
	Cost Reduction	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
	Reduction of Receivables Collection Length				100	100				50	100	100	100	100	100		100	75	100	100	100	100
	Strengthening Mgt. of Default Receivables				100	100				75						100	100		100	75	100	100
구분	100%	Team with full responsibility for lead index										75%	Significant share of responsibility for lead index									
구분	50%	Sharing responsibility w. other teams for lead index										25%	Partially responsible for lead index									

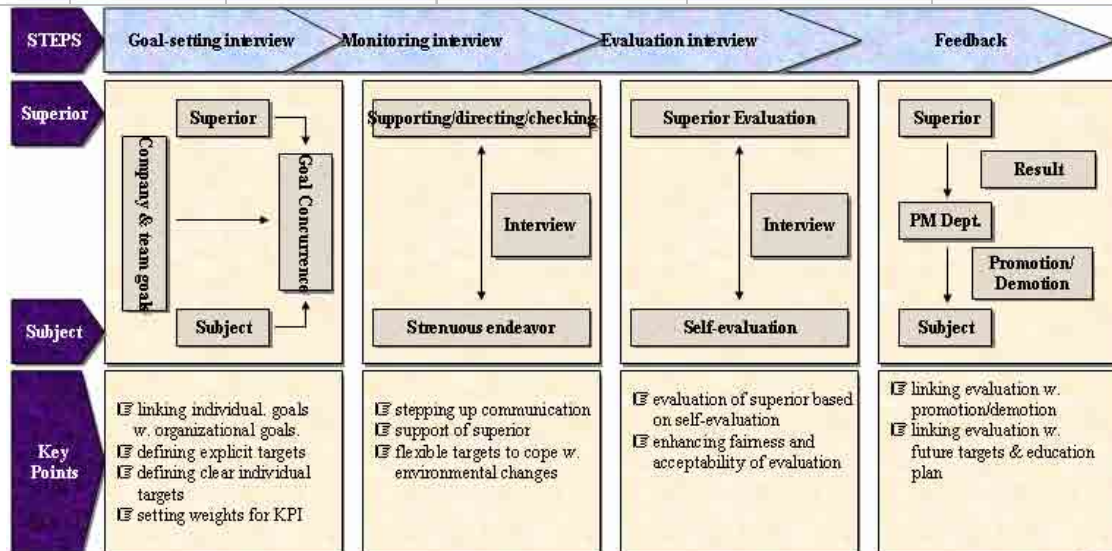
k) Team KPI for BSC Example (Example of Electricity Sales)

BSC		FINANCIAL		Team		Domestic Sales (Elect. Team)	
Strategic Agenda	Company Lead Indexes	Team Strategic Agenda		Team KPI		Target	Formula
		weights	Strategic Items	weights	Team KPI		
Revenue Maximization	Sales Increase	60.5	Expanding New Market w. New Products	60.5	Sales Target Achievement Rate		$\bullet \text{ (Actual} \div \text{Target)} \times 100$
	Cost Reduction	8.7	Cost Reduction	8.7	Cost Reduction Rate		$\bullet \text{ (Actual} \div \text{Budget)} \times 100$
	Reduction of Receivables Collection Length	8.7	Reduction of Receivables Collection Length	8.7	Days of Receivables Collection		$\bullet \text{ (Monthly Average Receivables} \div \text{Yearly Sales)} \times 365$

I) Example of description on individual performance indexes (example of electricity sales team)

Job Description		Accurate forecasting of customer needs and market changes, increasing sales through speedy response to		
code	task	key process	KPI	formula
	demand survey	collection of market	timely info. collection	collection date-target date
		information	information value	Does information latest? Does information useful for carrying out jobs?
			target achievement rate	(no. of collections/no. of target)x100
	bidding	post of bidding	timely acknowledgement	report date-post date
		bidding preparation	completeness of preparatio	Are there any unprepared items for the bidding? Is the cost estimate accurate? Is the business proposal reasonable and feasible? Is the business proposal accurate?
	Contract	review of contract terms	accuracy of contract terms	Are the terms reflecting the needs of the company? Are there any items omitted in the contract?
		contract changes	timeliness of contract changes	completion date - target date

The evaluation process consists of four steps: ① goal-setting, ② monitoring, ③ carrying out evaluation, ④ Feedback



n) Summary of PES

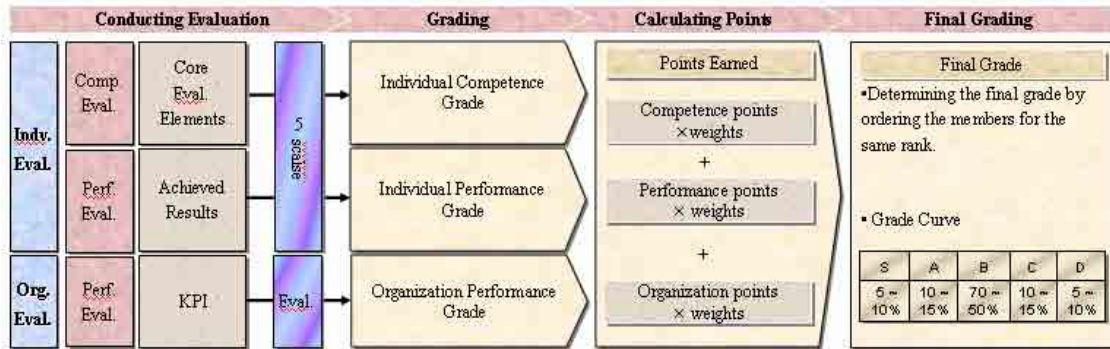
<p>■ Evaluation T/F conduct the evaluation twice a year for four groups of subjects.</p>					
<p>■ Implementer : Planning Team</p> <p>■ Evaluation T/F members : executives</p> <p>■ Composition of Evaluation T/F</p> <ul style="list-style-type: none"> ☐ T/F Leader : CEO ☐ Organizer : Team Leader of Planning Team ☐ T/F Members : executives (external experts can join) <p>■ Timing of T/F Formation : 3 weeks before evaluation</p> <p>■ T/F members</p> <ul style="list-style-type: none"> ☐ when necessary, external experts can be invited to raise the objectivity of the evaluation. <p>■ Composition of subjects</p> <ul style="list-style-type: none"> ☐ Subjects will be divided into four groups. ☐ Subject Groups : P/O, Sales, Technical, Production <p>■ Interim Evaluation</p> <ul style="list-style-type: none"> ☐ Evaluation period: Jan. 1 ~ June 30 (once a year) ☐ Evaluation timing : July <p>■ Final Evaluation</p> <ul style="list-style-type: none"> ☐ Evaluation period : Jan. 1 ~ Dec. 31 (once a year) ☐ Evaluation : Jan. the following year 	Subject Teams	<p>P/O group</p> <p>Planning, IT, QM, Fund, Acct. 1-2, General & PM, Procurement, Operation, Sales Mgt.</p> <p>Total 10 teams</p>	<p>Sales Group</p> <p>Material Sales, STS domestic, STS overseas, Communication, Electricity, High Voltage, Retail, Overseas Sales 1,2,3 etc</p> <p>Total 19 teams</p>	<p>Technical Group</p> <p>Plant (Technical Team, Parts Team)</p> <p>Total 8 teams</p>	<p>Production Group</p> <p>Supporting (Logistics, Facility Maintenance)</p> <p>Plant (Production, PM, FM)</p> <p>Total 13 teams</p>
		<p>Scale</p> <p>Absolute Scale/Independent Evaluation</p>			
		<p>Criteria</p> <p>Based on team KPI points</p>			
		<p>Ratings</p> <ul style="list-style-type: none"> ■ Ratings ☐ S : <= 90 points ☐ A : 80 <= ~ < 90 ☐ B : 70 <= ~ < 80 ☐ C : 60 <= ~ < 70 ☐ D : < 60 			

8.2.5 Structure of Evaluation Systems

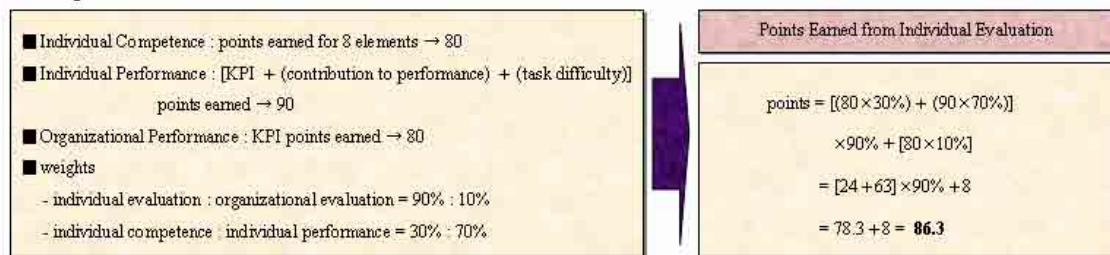
a) Individual Evaluation Systems

Class.	Methodology	Subjects																																																																
Performance Evaluation	MBO (Management By Objectives)	<ul style="list-style-type: none"> ■ Conducting evaluation and interviews once a year ■ A team leader evaluates team members on a non-curve and adjusts the results on a curve. ■ Executives evaluate team leaders on a non-curve and the T/F conducts the evaluation on a curve. 																																																																
Competence Evaluation	BARS (Behaviorally Anchored Rating Scale)	<ul style="list-style-type: none"> ■ Each employee is given the team average score (say 85) and conducts the self-evaluation. ■ A team leader conducts the evaluation. All employees are subject to the evaluation for common elements. ■ The individual evaluation are classified into two: job category and rank. 																																																																
Weights for elements (%)	Class.	<table border="1"> <thead> <tr> <th rowspan="2">Class.</th> <th colspan="3">Sales</th> <th colspan="3">Technical</th> <th colspan="3">Production</th> <th colspan="3">Planning & Operation</th> </tr> <tr> <th>Team Leader</th> <th>Senior Member</th> <th>Team Member</th> <th>Team Leader</th> <th>Senior Member</th> <th>Team Member</th> <th>Team Leader</th> <th>Senior Member</th> <th>Team Member</th> <th>Team Leader</th> <th>Senior Member</th> <th>Team Member</th> </tr> </thead> <tbody> <tr> <td>Perf.</td> <td>80</td> <td>70</td> <td>50</td> <td>75</td> <td>65</td> <td>50</td> <td>70</td> <td>60</td> <td>50</td> <td>60</td> <td>55</td> <td>50</td> </tr> <tr> <td>Comp.</td> <td>20</td> <td>30</td> <td>50</td> <td>25</td> <td>35</td> <td>50</td> <td>30</td> <td>40</td> <td>50</td> <td>40</td> <td>45</td> <td>50</td> </tr> <tr> <td>Total</td> <td>100</td> <td>100</td> <td>100</td> <td>100</td> <td>100</td> <td>100</td> <td>100</td> <td>100</td> <td>100</td> <td>100</td> <td>100</td> <td>100</td> </tr> </tbody> </table>	Class.	Sales			Technical			Production			Planning & Operation			Team Leader	Senior Member	Team Member	Team Leader	Senior Member	Team Member	Team Leader	Senior Member	Team Member	Team Leader	Senior Member	Team Member	Perf.	80	70	50	75	65	50	70	60	50	60	55	50	Comp.	20	30	50	25	35	50	30	40	50	40	45	50	Total	100	100	100	100	100	100	100	100	100	100	100	100
	Class.	Sales			Technical			Production			Planning & Operation																																																							
		Team Leader	Senior Member	Team Member	Team Leader	Senior Member	Team Member	Team Leader	Senior Member	Team Member	Team Leader	Senior Member	Team Member																																																					
	Perf.	80	70	50	75	65	50	70	60	50	60	55	50																																																					
Comp.	20	30	50	25	35	50	30	40	50	40	45	50																																																						
Total	100	100	100	100	100	100	100	100	100	100	100	100																																																						
weights (%)	Class.	Individual Performance Eval. + Individual Competence Eval.																																																																
	weights	90%																																																																
		Organizational Performance Evaluation																																																																
		10%																																																																

b) Example of Individual Evaluation

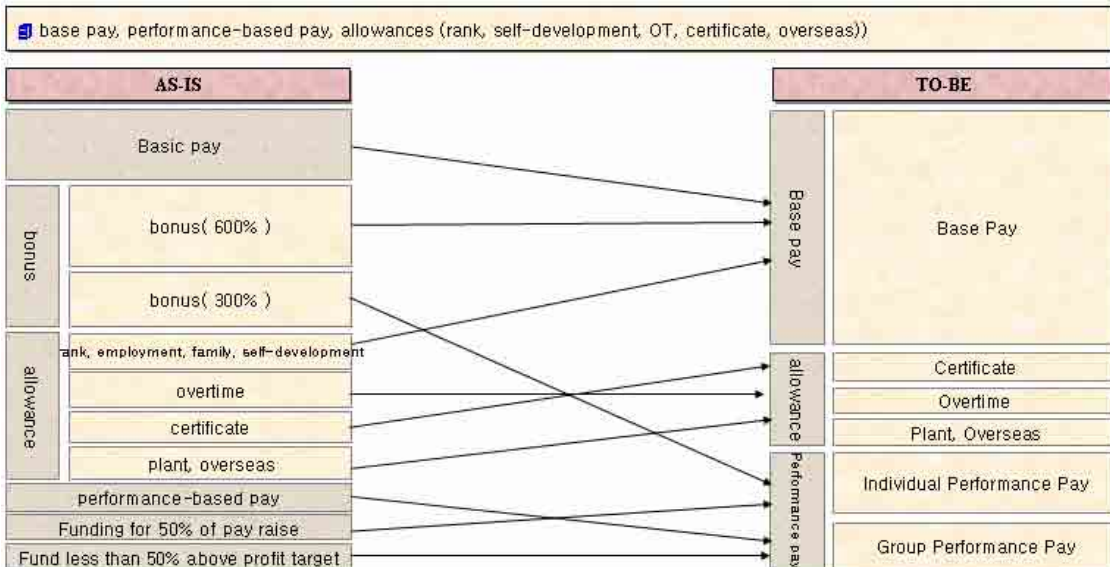


× Example of senior team member at Sales Team



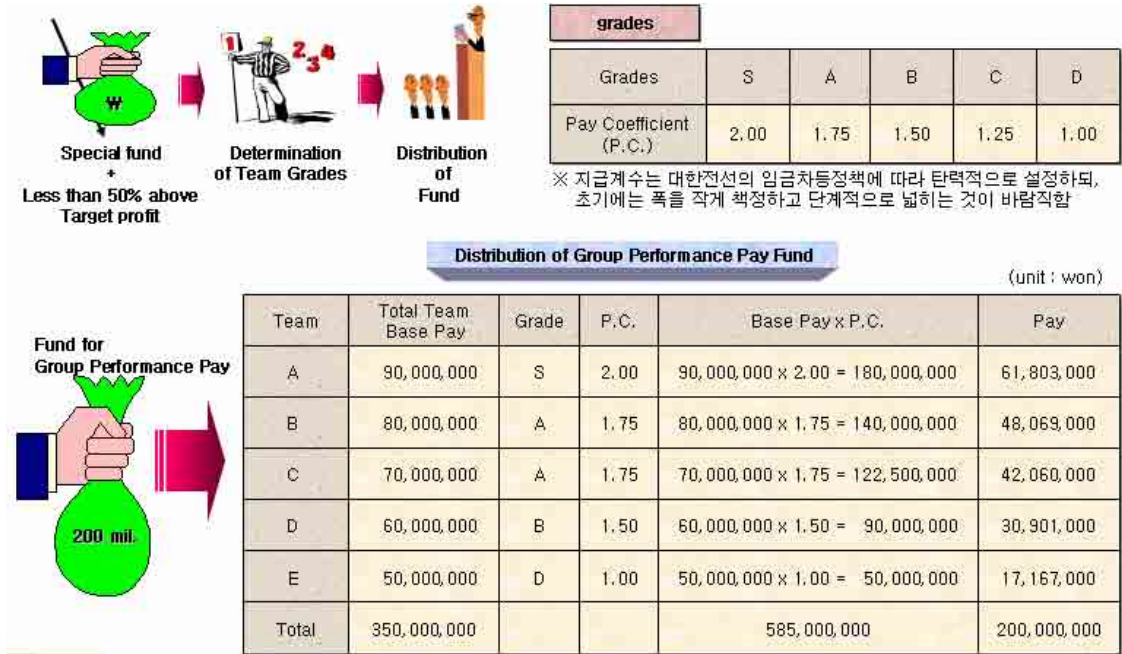
8.2.6. Design of Pay Systems

a) Structure of Pay Systems

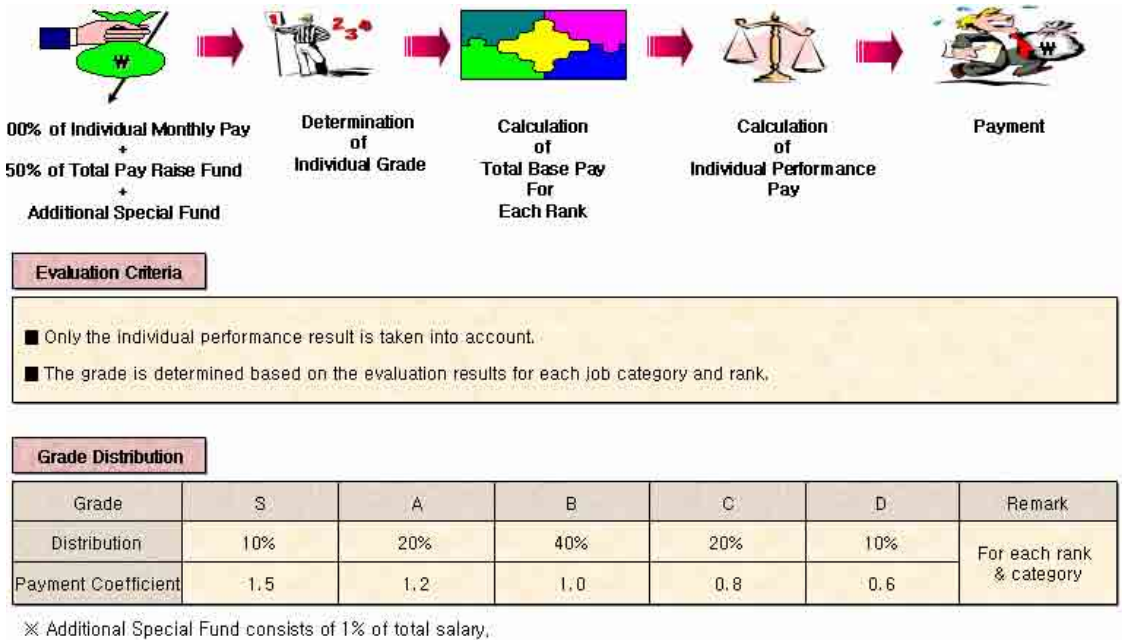


× Funding for Group Performance Pay is decided by the Board of Directors.

b) Group Performance Pay



c. Individual Performance Pay

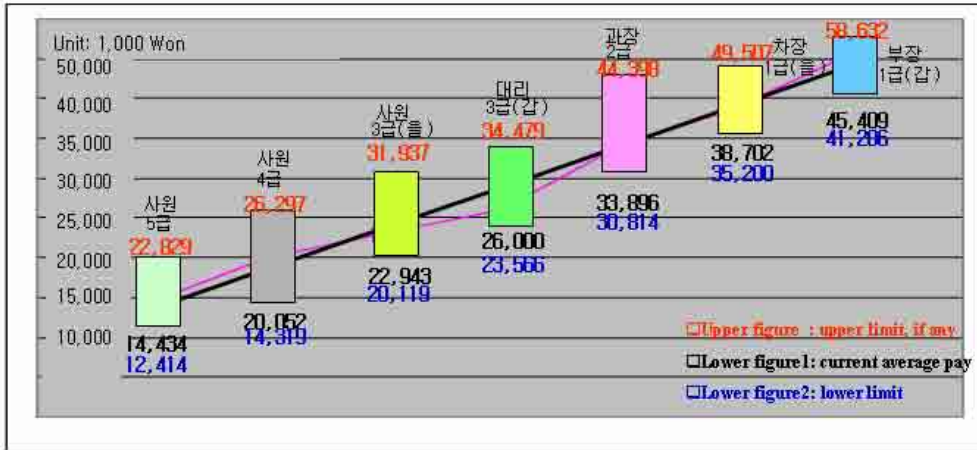


d) Pay Range under new pay systems

- ☐ The pay range has a lower limit but not an upper limit.
- ☐ The data do not include allowances for overseas and plants.

Example) The upper limit is for "S" of individual performance grade and "S" for group performance grade.

- The group grade S gives 300% of monthly base pay as group performance pay.
- The data does exclude the automatic pay raise.



9.0 Success factors

9.1 Executives' Action

- Executives should eschew simplistic organizational solutions: when applied in isolation by the companies, popular techniques such as management incentives and key performance indicators were strikingly ineffective.
- High-performing companies must have a basic proficiency in all of the available practices; a conspicuous weakness in any of them drags down the overall result.
- Managers should concentrate most of their energy on a small number of practices that, introduced together, typically produces

the best results, ["Managing your organization by the evidence,"
Leslie K., et al., The McKinsey Quarterly, No. 3, 2006.]

9.2 Combination of management practices

- Not one management practice would enhance organizational competence.
- Combination of several management practices would bring desirable results.
 - Accountability or clear role definition
 - Clear sense of direction
 - Openness and trust

9.3 Is KPI a panacea?

- Certainly not!!
- KPIs without clear role definition let employees focus only on improving indexes, not necessarily performance.
- Incentive systems without knowing corporation's directions and goals would not produce good results.

source: Keith Leslie, Mark A. Loch, and William Schaninger, "Managing your organization by the evidence," The McKinsey Quarterly, No. 3, 2006.

10.0 Conclusion

10.1 Need for unique appraisal and pay systems for each company

10.2 Commonality

- Recognizing the importance of sustainable growth
- Consideration of **competence** and achievement

- Design of systems to promote teamwork
- Tying the evaluation to the pay

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