

## **A Study on Rational Compensation System for Productivity Improvement in Korean Business Administration**

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A business company may survive easily by increasing productivity. To increase productivity there should be fair compensation distributed by performance. Therefore, establishing a fair compensation system for employees' contributions is a very important task in terms of strengthening management organization and keeping industry peace. While a fair compensation system is built on the basis of both compensation level and compensation structure, this article will focus only on the latter.

Compensation can be separated into economic rewards and social rewards. The former is considered as pay for performance because it is paid directly for the labor provided. The latter has no direct relationship with labor provided; benefits are a major example of this category. Because compensation is defined not as a cost factor for management, but as a performance-inducing factor of labor-management common interest, the character of economic rewards has changed to that of participation pay. The characteristics of participation pay are defined as a mixture of economic rewards and social rewards. The role of participation pay is becoming an important and growing area of compensation management.

Traditionally, compensation management deals with the pay for direct labor. However, the need for comprehensive compensation and indirect rewards, cooperative labor-management relations community administration, and the adaptation and challenge to management to grow dictate that compensation management should deal not only with traditional economic rewards but also

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with social rewards and participation pay. Compensation management is necessary to make and to implement strategies about these areas effectively. This article tries to diagnose the phenomena, to find problems, and to develop strategies in these areas. I will begin with economic rewards.

A major part of compensation management is the management of economic rewards. I investigated the economic rewards phenomena of Korea's business corporations at first and found that both the economic compensation level and structure are managed by traditional motives rather than rational motives. These practices are not effective in terms of compensation management. Improvements in efficiency, flexibility, and satisfaction are needed urgently.

In terms of the efficiency of compensation management, Korean corporations' simple seniority compensation system is tied neither to the quality and the quantity of labor, nor to the performance of labor. Therefore this simple seniority compensation system discourages the motivation to work and the productivity of the workers. This simple seniority compensation system often functions in compensation management like Gresham's law in personnel management.

In terms of the flexibility of compensation management, the simple seniority compensation system reveals many problems in satisfying employees' needs. From the case studies, I found that in most companies and job classes, employees wanted equality rewards distributed by ability rather than equity rewards distributed by seniority.

To increase the efficiency of compensation management, we should use evolutionary methods to change seniority-oriented compensation strategies to ability-and performance-oriented compensation strategies as soon as possible. In the long run we should abolish the simple seniority compensation system and focus on performance to promote and to upgrade by ability and performance without emphasis on birth place, educational background, and seniority. In the short term, however, it is desirable to induce performance factors incrementally and to balance performance with seniority.

I recommend the following strategies to foster the ability-and performance-based compensation management.

First, the simple equity grading system should be changed into a multiple equality grading system. The compensation structure should be designed in terms of an efficiency cycle and the employees' life cycle.

Second, bonuses and incentives that are distributed equitably by seniority and are considered to be salary and wages should be transformed to the bonuses and incentives distributed by ability and performance equally, thus motivating employees. In other words, instread of seniority pay, merit pay and incentive pay should be enforced to a greater degree.

Third, technology-accumulated and career-development-oriented compensation strategies and management should be pushed aggressively to increase organization performance and individual development both through integrating seniority and job, that is, seniority or career management based on job's efficiency cycle. Each member's career development and technology accumulation needed for strengthening organization competitive power can be done through timely and efficient job rotation and promotion based on each job's efficiency cycle.

That is, we try to establish efficient compensation management by linking pay management and status management. When compensation management does not limit itself to material rewards, but includes nonmaterial rewards, such as status, it is defined as modern compensation strategies and management meeting efficiency and community simultaneously.

Economic rewards management of Korea's business corporations should be diversified to increase the flexibility needed to adapt to rapidly changing situations and the needs of multipluralistic organizations. To increase flexibility, economic compensation should be diversified on the basis of the company's product technology and the product life cycle. For example, companies producing unit-order products such as construction, ship building, etc., should have more flexible wage structures and wage systems than companies producing standardized product such as textiles, machines, automobiles etc..

Moreover, within a company, the wage structures of production departments need to be systemized on the basis of some relatively efficiency standard, such as a time-based wage. The wage structures of marketing departments, however, need to be systemized in a relatively nonstandard and flexible way, like performance-based pay. Also within a department, the compensation structure for difficult jobs should be different from that of easy jobs.

From my research I can conclude that a major impending task of social compensation management is to raise the level of social compensation. In order to develop a community, social rewards should not be viewed as less important than economic rewards. The social compensation management characteristics of the business corporations investigated can be defined as 'low level benefits strongly linked to wages based on labor'.

The significance of social compensation for benefits is very minimal, and the major component of benefits is retirement allowance, which functions much like economic rewards. In my research I asked respondents to select 3 important benefits and the results show that retirement allowance, operating a cafeteria, and providing free meals are the major components of benefits. In a few large companies, scholarships are sometimes given. From these results, I conclude that the benefits system of Korean business companies is limited to 'Transferleistung', which is based only on direct compensation.

When the benefits system is analysed by industry, the woods and wooden products, coal mining, chemical and petroleum products, and plastic products industries recognize benefits as more important than many other industries do. When the benefits system is analysed by size, small business companies emphasize benefits than large companies do. This means that the work environments and benefits of small business companies are inferior to those of large companies. In addition, survey conducted by the Korea Productivity Center in 1985 shows that dissatisfaction with benefits equipments and system is very strong.

I recommend 'strengthening productive benefits management' as an alternative

development goal to improve social compensation practices. Benefits strategies should be executed on the basis of the attitude that benefits are productive investments to increase effectiveness. Benefits strategies based on the attitude that benefits impose costs or losses can never increase productivity.

The following tasks are required now to execute the 'strengthening productive benefits management' strategy.

First, benefit should be managed on the basis of modern management-community ideology and goals. When Korean business companies reach maturity, companies should broaden its single capital-oriented goals to multi-community goals, including labor-oriented goals. As a part of management-social and personnel strategies to reach the broadened goal, management-benefits strategies and investments should be done more actively.

Second, company's benefits management should be adjusted to not only specific conditions such as company size, industry, organization structure, tradition, etc., but also to social, economic, technical, and political environments. That is, benefits should be managed to maximize management performance, to strengthen the perspective that attach importance to the qualitative improvement of human labor, to design cafeteria-style benefit management that considers both employees' needs and the contents of the benefits, to further joint decision-making or joint-consultation of labor and management to gain investment effectiveness and employees' trust based on cost-benefit analysis of benefits, and to link development to the government's socio-economic strategies.

My research showed that Korean business corporations rarely execute participation compensation systems. Business companies' compensation systems have various compensation structures formally, but in practice they have short-term, direct, and financial compensation system. Korean business companies' participation compensation management can be characterized as 'compensating-labor and low-level participation compensation'.

To improve this participation compensation, we should place the goal on 'the reinforcing compensating-performance participation compensation'. To

establish a compensation system that increases employees' income in the long term, motivates employees to settle in the company, and has the flexibility to compensate on the basis of management performance, we should introduce participation compensation systems and support this with institutional devices.

Management compensation strategies should raise the proportion of distribution participation pay and should transform the attitude of conflict to one that highlights the common interests between labor and management. The major goal and tasks of participation compensation management is to balance profit participation (i.e., organization-performance-distribution-participation) and capital participation (i.e., properties-distribution-participation).

I have analysed Korean business companies' compensation management practices and have found some problems and suggested various devices to rectify these problems. Most importantly, one must be aware of the goal, the structure, and the function that integrate various devices.

The goal of rational compensation system development is to establish a community-oriented compensation system. To accomplish this goal, labor should seek to improve the quality and the quantity of products through a diligent and honest attitude, which will effectively boost productivity. Employers should design profit participation keeping in mind the welfare of the employees.

Thus, compensation strategies and management aimed at community building are required, and the effort to initiate these strategies and management is needed. When we look around the Korean management climate, we can be sure that labor and management should build confidence each other in advance to establish and to preserve community. Management must take into account not only capital-oriented goals but also labor-oriented goals. That is, when employers do not view profits as an objective but as a result, and employees do not view compensation as an objective but as a result, a trustful climate can be built between labor and management.

Employers should not view profits as a return on capital, that is, payoffs for risk-taking and risk-management, but as a result of labor's and manage-

ment's common efforts. In addition employees should not view compensation as a return on labor, that is, a payoff for supplying labor, but as a result of labor's and management's common efforts. Through views like these, unity and psycho-community based on duties and responsibilities can be developed, establishing a trustful organization climate and culture between labor and management.

Structurally and functionally, to develop rational compensation system, we should establish an ability- and performance-oriented compensation system (APOCS). To establish APOCS, we should change the criteria of compensation decision-making based on social ability to the criteria based on organizational ability. That is, with the criteria based on ability rather than social status and furthermore on job-related ability rather than seniority-related ability, we should try to develop incrementally a rational compensation system based on job function rather than on seniority. Generally speaking, for the development of a rational compensation system for Korean business companies, it is required to strengthen the functional ability criteria that improves organizational fairness and to strengthen performance criteria that improves individual fairness. To strengthen functional ability-differentiated criteria, it is required to intensify job-grade-differentiated pay implemented partly in most companies. This would require increasing the number of job grades vertically and job classes horizontally and to widen qualitatively the payment gap between different job grades.

In addition it is required to introduce a job qualification system into companies and to set up various qualification and job responsibility allowances. In this way we can reduce the seniority proportion and increase the functional proportion in the total compensation.

To strengthen performance-differentiated criteria, the compensation system should be designed to pay employees relationally and fairly according to performance by ability on one hand and by efforts on the other.

For methods to pay according to ability there are pay-for-job values based on job-level abilities and pay-for-seniority based on organization-level abilities.

The pay-for-job approach has more theoretical validity but more difficulty in measuring objectively the value of the job than pay-for-seniority does. Pay-for-seniority has more objectivity but less validity for compensating for abilities required actually to do the job. We can develop a pay-for-the-functions system and pay-for-the-qualification system that integrates the advantages of each pay system mentioned above. To move toward this goal, I think, we must strengthen the job-responsibility allowance and qualification allowances.

We should make more efforts and investment for performance-based fair compensation. To pay fairly as productivity increases, the compensation system that reinforces performance-differentiated criteria putting value on individual fairness should be established.

Because pay-for-performance is based on an objective measurement of performance, we should establish an objective performance evaluation system to make a successful pay-for-performance system, implementing individual fairness of compensation.

To increase productivity and to strengthen the competitive power of Korean businesses, a compensation system should be designed to satisfy organizational fairness and individual fairness. To be fair, pay-for-abilities fixed payments should be balanced with pay-for-performance unfixed payments.

I conclude that, to achieve fairness, we should go beyond the perspective that compensation is solely composed of materials payment, and extend to the perspective that compensation-structure is reviewed on the value-dimension of the organizational structure. We need to extend our view of what compensation is and can be.