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**A STUDY ON MULTINATIONAL  
COMPANIES IN ASIA-PACIFIC\* :**

The Case of Daewoo Group in the Republic of Korea

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## 1. Introduction

Globalization and internationalization are maybe the most distinctive feature of the current world economy. International trade and foreign direct investment (FDI) have been also growing rapidly, driven by the quest for market expansion with the aid of advances in communication and information processing.

Amid the worldwide tide of globalization and internationalization, multinational companies (MNCs) have enjoyed a rapid growth in number and size. There is a report that worldwide stock of FDI tripled from an estimated value of US\$ 500 billion in 1980 to over US\$ 1,500 billion in 1990 (Jungnickel, 1993). This kind of increase is also observed in Korea.

The effects of MNCs are multifold. For instance, MNCs are known to have a significant effect on employment, domestic as well as foreign. MNCs can also affect the wage levels of the domestic and foreign economies. Industrial relations of MNCs are also an important aspect since they can alter the system of industrial relations in host countries.

The aim of this paper is to examine the employment conditions and industrial relations of a MNC in Korea. For this, Daewoo group is selected on request by ICFTU-APRO. The main purpose of this examination is to provide information on the employment conditions and industrial relations of Daewoo Group in order for others to compare them between home and host countries. In addition, this paper presents the trend and pattern of foreign direct investment and

foreign capital in Korea as well as the government policies on both.

Organization of the rest of this paper is as follows. Section 2 describes foreign direct investment of Korean companies. Section 3 introduces Korean government policies on foreign capital. Government laws and regulations on export processing zones (EPZs) are also introduced here. Sections 4 and 5 present the basic characteristics of Daewoo Group and its globalization policies. Sections 6 and 7 describe wage, employment and industrial relations of Daewoo. Sections 8, 9 and 10 introduce welfare system, human resource development and regional activities of Daewoo. Finally, Section 11 includes concluding remarks.

## 2. Foreign Direct Investment(FDI) of Korean Companies

### 2-1. A Brief History

It is known that Korea FDI started from the investment of Korea Southern Area Development Company in Indonesia to acquire forest resources in 1968. During the 1970s, many Korean trading and construction companies actively ran business in foreign countries, especially in the Middle East. However, after the second oil shock in 1979, Korea FDI had declined until 1986.

In 1986, Korea FDI entered a new phase with the assistance of a world-wide boom of FDI in the late 1980s. The scale of FDI became larger, and the kind of products Korean overseas companies produced and the countries in which they invested were diversified. As a

result, Korea FDI was extended from trade and construction industries to labour-intensive manufacturing industries such as colour TVs, tires, footweares and furniture.

The increase of FDI during the 1980s is owing to many factors. First of all, many countries reinforced protectionism during that period so that Korean companies had to move plants abroad in order to facilitate their exports. Domestically, Korean economy realized trade surplus and at the same time experienced a rise in labour costs during the same period. It is also known as an important factor explaining a rise in FDI during the 1980s that Korean government deregulated laws concerning FDI to promote exports. Table 2.1 illustrates the increasing trend of FDI.

<Table 2.1> Korea's FDI Cases and Amount (1968-1995)

	No. of FDI cases	Investment Amount (million US\$)
1968 - 85	433	461.0
1986	31	158.3
1987	59	320.1
1988	141	156.6
1989	246	392.4
1990	316	809.2
1991	420	1,027.0
1992	463	1,097.3
1993	617	1,014.8
1994	1,407	2,035.9
1995	1,193	2,748.1
Total	5,326	10,220.7

Source : Bank of Korea, 1996

Since 1986, the number of FDI cases and the amount of FDI investment have continuously increased although there were small ups and downs. It is also interesting to note a huge increase in FDI in 1994 when many Korean companies adopted globalization policies. Currently, Korea FDI is still increasing even though internal and external investment environment becomes unfavorable to many Korean companies. The increase of Korea FDI is due to government export-leading policies and Korean companies own survival strategies under the pressure from globalization. Also, it is often argued that Korea increased FDI is due to the rapid increase in labour costs in the domestic labour market since 1986.

The composition of FDI has also significantly changed over the period of 1968 to now. Until the early 1970s, forestry was the main industry of Korea FDI. Trading and construction became an important part of FDI at the middle of the 1970s. Entering the 1980s, however, Korea FDI came to heavily rely on mining(mainly coal and petroleum) and manufacturing (mainly textile, apparel and shoes). In the 1990s, the portion of manufacturing in FDI increased even more while FDI in mining became less important. As a result, at the end of 1995, 67.2% of FDI took place in manufacturing, 8.5% in trading, 2.7% in construction, and 0.9% in mining.

Korea FDI also exhibits regional variation. Until the 1970s, Korea FDI was concentrated in Southeast Asian countries. However, after 1980, the portion of Korea FDI has increased in North America, Middle East, Australia, and South America. Table 2.2 presents Korea FDI in the early 1990s by region. A total amount of FDI is increasing in all regions, but the regional shares show different patterns. The share of FDI is increasing in Southeast Asia, Europe,

and Africa while it is decreasing in Middle East, Americas, and Oceania. The pattern of FDI in the manufacturing industry is very similar to that of total FDI. Table 2.2 shows that FDI in Southeast Asia is still the most important part in Korea FDI even though it has been diversified in region since 1980.

<Table 2.2> Korea's FDI by Region (million US\$)

		Southeast Asia	Middle East	North America	South America	Eruope	Africa	Oceania
Total	1991	1,141.3 (33.8)	57.6 (1.7)	1,552.7 (46.0)	160.8 (4.8)	242.9 (7.2)	61.1 (1.8)	156.5 (4.7)
	1993	2,190.6 (39.3)	89.1 (1.6)	2,192.3 (39.3)	217.6 (3.9)	566.6 (10.1)	117.7 (2.1)	204.4 (3.7)
	1995	4,829.6 (46.0)	102.7 (1.0)	3,161.8 (30.1)	337.0 (3.2)	1,550.6 (14.8)	265.9 (2.5)	249.8 (2.4)
Manu.	1991	698.8 (42.4)	17.4 (1.1)	704.8 (42.8)	80.2 (4.9)	117.7 (7.1)	12.0 (0.7)	17.2 (1.0)
	1993	1,441.4 (52.4)	17.7 (0.6)	918.5 (33.4)	101.8 (3.7)	235.1 (8.6)	15.6 (0.6)	18.8 (0.7)
	1995	3,502.5 (58.3)	19.1 (0.3)	1,340.1 (22.3)	192.8 (3.2)	843.5 (14.0)	83.9 (1.4)	31.8 (0.5)

Source : Bank of Korea, 1996.

Note : Numbers in parentheses are percentages.

## 2-2. Government Policies on FDI

Korean government policies on FDI have changed over time experiencing 4 major stages. The first stage is from 1968 to 1974 and during that period government policies on FDI were passive in that FDI was permitted by the government only when it was necessary and essential for the economy even though the government admitted the importance of FDI to boost the economy. Korean

government took such a passive position because a trade deficit was growing and the government had to regulate the spending of foreign currencies in that period. Also, Korean government did not have much experience in FDI so that it could not support the FDI actively.

The second stage is from 1975 to 1979. In this period government policies on FDI were even more restrictive while the volume of FDI had increased in many areas. Going through the first and second oil shocks Korean economy experienced short of foreign currencies and some bankruptcy of subsidiaries of Korean companies located in foreign countries. Under these circumstances, Korean government had to reinforce regulations on FDI. These regulations included licensing and financial inspection of multinational companies(MNCs) before and after they were engaged in FDI.

The third stage is from 1980 to 1985 and it can be called a promotion period. During this period the government relaxed regulations on FDI and even changed laws regarding FDI and set up a committee(FDI Review Committee) to encourage FDI. The main purpose of the committee was to simplify the procedures that were required for FDI. Before, the companies with at least 3 years of business experience were allowed to be engaged in FDI but since the change of laws and the establishment of the FDI Review Committee, companies with at least one year of business experience were allowed to be engaged in FDI. Also, pre-approval system of FDI was abolished.

The reason behind the drastic change of the government position towards FDI during this period was that the world economy was experiencing recessions and many countries became an advocate of

protectionism as a result. Under this global environment, Korean government could not rely upon traditional ways of exports any longer and felt it necessary to find ways to overcome trade barriers. This is why the government changed its attitude towards FDI.

The fourth stage is from 1986 to now. In 1986, Korean government encouraged the FDI even more by relaxing eligibility conditions for FDI. The trade surplus in that year also made it easier for the government to promote FDI. In 1987, Korean government permitted foreign indirect investment if a company business area is related to high-tech and can boost exports. Investment in real estate in foreign countries was also permitted in 1988. In 1992, the government abolished the pre-approval system for investment in North Korea in order to activate investment there. However, some restrictions were still applied to the FDI in North Korea when excessive competition among Korean investors was expected or when the FDI in North Korea might damage domestic industries.

Currently, Korean government classifies FDI into 3 groups : government promoting business, general business, and government regulating business. If a company deals with a business that the government promotes such as a high-tech computer software, then the company may obtain authorization for FDI faster than others and may even receive financial aid from the government. On the other hand, if the FDI of a company is thought of as damaging domestic industries and weakening the competitiveness of Korean economy, it usually happens when essential technology is transferred to foreign countries, then the government does not authorize the FDI nor provides financial aid. Also, FDI is not permitted if it causes a negative effect on international relations. Investment in real estate in

foreign countries is limited in this respect.

For the government promoting business Korean government provides various incentives and concessions. The Korean Export and Import Bank lends money to such businesses at low interest rates. Since 1995, support for the government promoting business has increased. First of all, the bank expanded the government promoting business category. The terms, period, and procedure of financial aid have been relaxed, extended, and simplified too. In particular, for businesses related to the development of overseas resources, the Mining Promotion Public Corporation established a fund to provide financial aid.

Various tax credits and exemptions are also given to the government promoting business. For example, a company can have tax exemption up to 5% of a reserve fund that is saved to prepare for the loss that may result from FDI (Tax Exemption Regulation Act). A company which pays taxes in a foreign country can also have tax credit on the paid amount. In case of the development of overseas resources, the corporation tax is exempted for the dividends received in foreign countries.

In addition, Korean government operates a FDI insurance which compensates for uncertain losses from FDI that may occur from (1) the confiscation of property by foreign governments, (2) civil wars, revolution, and riots, and (3) other unexpected and uncontrollable events. Other than the enumerated incentives and concessions, Credit Guarantee Funds may help small and medium enterprises engaging in FDI by providing collaterals to foreign banks.

### 3. Government Policies on Foreign Capital

The history of government policies on foreign investment in Korea goes back to 1960 when Korean government legislated Foreign Capital Inducement Act(FCIA). From 1962 to the early 1980s Korean people had kept a negative view on the inflow of foreign capital because they were worried that foreign capital might substitute domestic capital and hence domestic industry. During this period, Korean government adopted a pre-approval system but once foreign investments were approved, the government provided many incentives for foreign investors. In 1983, Korean government amended FCIA in order to further induce foreign capital associated with technology transfer and in 1984, Korean government established a new system in which procedures related to inducing foreign capital were much simplified. In 1992, Korean government opened the market further and created an environment under which foreign investments in Korea could be activated. Finally, at the end of 1992, Korean government completely removed requirements which foreign investors had to meet in order to invest in Korea and abolished licensing and approval systems.

Currently, Korean government provides tax and rent exemptions for foreign investors to promote investment and to induce foreign capital in high-tech areas. Tax exemption is awarded to data-processing and computer technology, development of computer software, telecom machinery and related technologies, computer memory, home automation system, and other high-tech areas in the form of corporation, income and value-added tax reduction. The rent exemption is awarded to high-tech industries and SOC related areas in the form of the reduction of rental fees to be paid for using the

government-owned land and buildings.

Major countries investing in Korea have been the U.S. and Japan although the share of European investors has been steadily increasing. Table 3.1 presents the amounts and composition rates of foreign investments in Korea by region. Before 1990, Asia, particularly Japan, had the largest share in foreign investment in Korea. But during the 1990-92 period, the investment from America, mainly from the U.S., exceeded that of Asia. It is also noticeable that Europe was the largest investor in 1991. As of 1996, Asia is still the largest investor in Korea.

<Table 3.1> Foreign Investments in Korea by Region (million \$US, %)

	Int'l Organ.	America	Asia	Europe	Middle East	Others	Total
1962-71	1.0 (0.4)	139.5 (52.4)	104.4 (39.2)	20.7 (7.8)	0.4 (0.2)	-	266.0 (100)
1972-81	27.1 (1.7)	419.7 (26.2)	991.2 (61.9)	134.1 (8.4)	28.0 (1.8)	-	1,600.1 (100)
1982-86	16.2 (0.9)	605.8 (34.3)	950.9 (53.8)	191.7 (10.8)	3.1 (0.2)	-	1,767.7 (100)
1987-88	39.4 (1.7)	555.9 (23.7)	1,283.1 (54.6)	459.4 (19.6)	4.4 (0.2)	5.0 (0.2)	2,347.2 (100)
1989	26.0 (2.4)	320.7 (29.4)	525.3 (48.2)	216.9 (19.9)	1.3 (0.1)	-	1,090.2 (100)
1990	2.9 (0.4)	335.4 (41.8)	257.3 (32.1)	207.0 (25.7)	0.04 (0.0)	-	802.6 (100)
1991	7.9 (0.6)	311.8 (22.3)	248.5 (17.8)	824.4 (59.1)	3.3 (0.2)	-	1,395.9 (100)
1992	3.9 (0.4)	433.7 (48.5)	170.3 (19.0)	282.2 (31.6)	4.3 (0.5)	0.1 (0.0)	894.5 (100)
1993	1.4 (0.1)	343.8 (32.9)	391.6 (37.5)	307.4 (29.4)	0.1 (0.0)	-	1,044.3 (100)
1994	6.6 (0.5)	323.4 (24.6)	569.1 (43.2)	406.7 (30.9)	10.7 (0.8)	-	1,316.5 (100)
1995	7.9 (0.4)	665.9 (34.3)	790.9 (40.7)	475.2 (24.5)	1.6 (0.1)	0.07 (0.0)	1,941.6 (100)
1996	0.6 (0.0)	925.2 (28.9)	1,217.5 (38.0)	1,058.3 (33.1)	1.1 (0.0)	-	3,202.7 (100)

Source : Bank of Korea, 1997

Note : Numbers in parentheses are percentages.

Table 3.2 presents the amounts and composition rates of foreign investments in Korea by industry. Primary industry includes agriculture, livestock and fishery and its share indicates some importance between 1962 and 1981, but is decreasing to zero since then. Foreign investment in the mining industry shows no distinct pattern except that its share sharply increased in 1996. The share of the manufacturing industry in foreign investment had been the largest until 1992, but has declined thereafter. On the other hand, the share of the service industry in foreign investment has steadily increased. The year 1996 seems to be an exceptional one. If 1996 is excluded in the table, the share of the service industry exceeds that of the manufacturing industry. However, at this point, it will be too hasty to conclude that foreign investments in the service sector will dominate those in the manufacturing sector.

<Table 3.2> Foreign Investments in Korea by Industry (million US\$, %)

	Primary	Mining	Manufacturing	Service	Total
1962-71	2.1(0.8)	0.3(0.1)	231.4(87.0)	32.2(12.1)	266.0(100)
1972-81	12.7(0.8)	6.0(0.4)	1,158.3(72.4)	423.1(26.4)	1,600.1(100)
1982-86	2.6(0.1)	4.3(0.2)	931.0(52.8)	826.8(46.9)	1,764.7(100)
1987-88	5.8(0.2)	2.6(0.1)	1,516.6(64.7)	822.1(35.0)	2,347.1(100)
1989	0.2(0.0)	1.3(0.1)	729.4(66.9)	359.4(33.0)	1,090.3(100)
1990	-	0.5(0.1)	583.4(72.7)	218.7(27.2)	802.6(100)
1991	-	1.2(0.1)	1,069.2(76.6)	325.6(23.3)	1,396.0(100)
1992	0.8(0.1)	1.4(0.2)	648.0(72.4)	244.3(27.3)	894.5(100)
1993	0.1(0.0)	-	526.8(50.4)	517.3(49.6)	1,044.2(100)
1994	-	0.3(0.0)	401.7(30.5)	914.5(69.5)	1,316.5(100)
1995	0.3(0.0)	0.1(0.0)	883.5(45.5)	1,057.5(54.5)	1,941.4(100)
1996	0.1(0.0)	18.2(0.6)	1,930.2(60.3)	1,254.3(39.1)	3,202.8(100)

Source : Bank of Korea, 1997

Note : Numbers in parentheses are percentages.

Beside the tax and rent exemptions stated above, Korean government legislated Free Export Zone Act and Special Act of Unions and Labour Dispute Settlement for Foreign Companies in Korea in 1970 to induce foreign capitals and investment. In 1973, Korean government amended FCIA to further induce foreign investments. According to the above acts, I-ri and Masan cities were designated as Free Export Zones and trade union movements in these regions were almost totally prohibited. The prohibition of union movements in the free export zones had continued until the time of democratization of Korea in 1987.

In 1994, Free Export Zone Act was amended. The new act had the purpose of inviting more foreign investors in the free export zones in order to promote exports, increase employment and diffuse technology. Unfortunately, this act still limited the right to strike of workers. Article 18 of this act stipulates that labour dispute settlements in the free export zones are subject to the labour laws applied to public enterprises. In other words, Labour Relations Commission in Korea arbitrates disputes in the free export zones in demand of the administrative authority or *ex officio*. Obviously, companies in free export zones are not public enterprises. But, the government applies the regulations related to public enterprises to the companies in the free export zones to promote foreign investment in the zones. FKTU has been concerned about this article since it limits the labour right without cause.

At the peak the number of foreign companies in Masan reached 110 but in 1993 the number was decreased to 70. The main reasons for the reduction have been known to be high wages, high interest rates, high rents and high transportation costs. Korean government is

now trying to induce high-tech foreign companies into the free export zones, but the outflow from the regions is still larger than the inflow to the regions. As a result, the number of foreign companies in the free export zones is expected to decline.

#### 4. Overview of Daewoo Group

Daewoo Group, one of the five largest groups in Korea, was established in 1967 by Woo-Choong Kim. Since the establishment of Daewoo Industrial Co., Ltd., an exporting company of garments and textiles, in 1967, Mr. Kim has diversified and expanded its business to include automobile manufacturing, construction, shipbuilding, home appliances, and services such as telecommunications, food and hotel. Currently, Daewoo Group owns 25 domestic companies and 277 overseas subsidiaries and employs more than 191,000 workers worldwide. Daewoo is certainly a multinational company whose market share may not be negligible even in the world market. The basic characteristics of Daewoo Group are shown in Table 4.1.

As shown in Table 4.1, Daewoo Group has 22 major companies and is concentrated in electronics, automobile and heavy industries. In the electronics industry Daewoo Electronics Co., Ltd is the major company which produces TV, VCR and refrigerators domestically and overseas and in the automobile industry, Daewoo Motor Co., Ltd. is the major company which has been already operating plants in Romania, Poland, India, Indonesia, Uzabekistan and other countries. Daewoo Heavy Industries Ltd. has two major divisions - shipbuilding and heavy machinery. The company has rapidly grown into Korea

leading heavy industrial manufacturer and become one of the largest shipbuilders in the world.

<Table 4.1> Characteristics of Daewoo Group (1995)

	No. of Companies	Sales(billion \$)	No. of Employees
Electricity	1	0.130	316
Electronics	5	6.371	21,004
Automobile	4	5.477	20,009
Heavy Industries	1	5.116	19,588
Other Manufacturing	2	0.026	371
Construction	1	0.517	786
Wholesale&Retail	1	19.395	11,652
Hotel & Food	1	0.111	1,584
Stock	1	0.574	2,686
Other Service	3	0.049	1,636
Other	2	0.061	1,252
Total	22	37.878	80,884

Source : KMCC(Korea Management Consulting & Credit Rating Corporation)

Note : 1) Wons are converted into US dollars by appropriate exchange rates.

2) No. of employees in automobile industry is estimated.

The number of employees shown in Table 4.1 and 4.2 mainly indicates the number of Daewoo workers employed domestically. As mentioned earlier, total number of Daewoo employees including overseas employees is more than 191,000 in 1995. Therefore, the numbers shown in Table 4.1 and 4.2 underestimate the size of Daewoo Group. On the other hand, it also implies that moving production overseas may reduce employment opportunities for domestic workers. The problem of hollowing out is a hot issue and one of the major concerns for trade unions in Korea nowadays.

Sales and total assets of Daewoo Group have been growing while the number of employees has been relatively stable. This can be interpreted

in two ways. One explanation is that Daewoo has moved into high-tech activities that are capital intensive and hence consume relatively less labour force. The other explanation is that growing overseas production may have substituted domestic employment by foreign employment. Therefore, domestic employment has not been growing as much as one would expect from the growth of total sales.

As shown in Table 4.2, liabilities ratio(=liabilities/equity) of Daewoo is about 310% in 1995 which is a very high level, although it is not higher than that of Hyundai Group (377%) in 1995. Higher the liabilities ratio is, more fragile is the financial structure. Therefore, Daewoo high liabilities ratio indicates that Daewoo may run into a serious financial problem when Korean economy goes through economic downturns.

<Table 4.2>

Financial Status and Number of Employees of Daewoo Group (1993-1995)

	1993	1994	1995
Sales(billion \$)	25.663	26.003	37.878
Total Asset(billion \$)	33.116	34.931	42.190
Stockholder Equity(billion\$)	8.802	9.742	10.295
Liabilities(billion\$)	24.314	25.189	31.895
No. of Employees	77,983	78,473	80,884
No. of Companies	22	22	22

Source : KMCC

Note : Wons are converted into US dollars by appropriate exchange rates.

## 5. Globalization of Daewoo Group

Globalization and FDI are now an important and even indispensable part of Daewoo like many other major companies in Korea. It seems that Daewoo first FDI took place in the form of a joint venture in Sudan during the 1970s. Since then, Daewoo has diversified its overseas operations and also regions. Currently, Daewoo is expected to have 417 overseas branch offices and subsidiaries in 1997 and planning to increase the figure to 650 by year 2000. The detailed plan of globalization is shown in Table 5.1.

Comparing 1997 and 2000 in Table 5.1, we can see that Daewoo is planning to increase overseas subsidiaries and branches by 56% with the largest increase in construction (71%) and the smallest increase in heavy industries (44%). In terms of region, Daewoo will focus more on Middle East/ Africa (60%) and Americas (58%) than Asia/Oceania (54%) and Europe (54%). Table 5.1 also indicates a shift from the manufacturing sector to the service sector in overseas activities.

<Table 5.1>

Global Operations by Region (No. Of Overseas Subsidiaries and Branches)

	Asia/Ociania		Europe		Mid East/ Africa		Americas		Total	
	1997	2000	1997	2000	1997	2000	1997	2000	1997	2000
Trade	70	110	60	90	52	80	34	50	216	330
Construction	8	16	8	12	11	20	8	12	35	60
Elec. & Tele.	18	24	16	30	12	20	14	26	60	100
Vehicles	14	20	16	25	12	17	13	18	55	80
Heavy Indus.	9	12	6	8	3	5	5	8	23	33
Service	7	12	11	15	4	8	6	12	28	47
Total	126	194	117	180	94	150	80	126	417	650

Source : Daewoo Fact Book 1996

## 6. Wages and Employment

### 6-1. Wages

It is fair to say that Daewoo employees enjoy a high level of wages in Korea. Daewoo is one of the companies in Korea where fresh university graduates are eager to get a job, due to high salary and good working conditions. It does not mean, however, that employees of Daewoo are perfectly satisfied with wages and employment conditions of Daewoo. According to a recent survey done by Daewoo Trade Union Council (DTUC), over 28% of its workers often think about changing their jobs and over 80% of its workers feel that employer labour control has been strengthened during the last three years. Therefore, even if wages and employment conditions of Daewoo are better than those of many small and medium companies in Korea, employees of Daewoo seem to have their own problems. Table 6.1 presents average wages of major companies of Daewoo Group and average wages in the industries each company belongs to.

Inspection of Table 6.1 reveals that average wages of Daewoo companies are in general much higher than average wages in the industries they belong to. Except Daewoo Heavy Industries in 1994 and Daewoo Securities in 1993, the average wages of Daewoo companies are 9% at the minimum and 68% at the maximum higher than the industry average wages; workers in Daewoo Securities and Daewoo Heavy Industries earn 9% and 68% more than their counterparts in 1995 respectively. Table 6.1 also tells us that there is a significant wage differential even among companies in Daewoo Group. Although companies listed in the table are not exhaustive so that it is

difficult to determine the size of the wage differential, it is seen that workers in Daewoo Heavy Industries earn over 1.5 times more than workers in Daewoo Development in 1995. This kind of wage disparity certainly damages union solidarity in Daewoo Group and weakens the strength of Daewoo Trade Union Council.

<Table 6.1> Average Monthly Wages of Daewoo Companies (unit : \$US)

	1993	1994	1995
Daewoo Electronics	1,396(1,048)	1,586(1,227)	1,928(1,543)
Daewoo Telecom	1,533(1,044)	1,329(1,183)	2,569(1,706)
Daewoo Motor	1,589(1,317)	1,835(1,618)	2,322(1,927)
Daewoo Heavy Industries	2,203(1,648)	1,467(1,840)	3,095(2,264)
Daewoo Corporation	1,730(1,307)	2,144(1,470)	2,777(1,657)
Daewoo Development	1,454( 937)	1,672(1,095)	1,828(1,284)
Daewoo Securities	1,714(1,918)	2,413(2,368)	2,827(2,605)

Source : KMCC and Ministry of Labour

Note : Numbers in parentheses are industry average wages.

Table 6.2 presents the average wages of selected Daewoo companies by occupation in 1995. Again, the average wages of blue collar and white collar workers of the Daewoo companies are higher than the average wages in the industries the Daewoo companies belong to. Wages of white collar workers are higher than those of blue collar workers in Daewoo Electronics and Daewoo Telecom while the opposite is true for Daewoo Heavy Industries. This kind of phenomenon is often observed in Korea when blue collar workers work under bad conditions such as shift schedules, earning compensating wage differential or they are highly unionized so that the union can effectively increase wages. It seems that the case of Daewoo Heavy Industries is of a mixture of the two.

&lt;Table 6.2&gt;

Average Wages of Selected Daewoo Companies by Occupation in 1995 (unit : \$US)

	Daewoo Eletronics	Daewoo Telocom	Daewoo Heavy Industries
White Collar	2,160(1,796)	2,837(1,864)	2,819(2,196)
Blue Collar	1,674(1,224)	1,741(1,291)	3,284(2,300)

Source : KMCC and Ministry of Labour

Note : Numbers in parentheses are industry average wages.

Finally, we look at the ratio of employment costs to gross value added of Daewoo Group to see how much of growth value added is distributed to labour. Table 6.3 presents the figures for Daewoo Group and Korean economy respectively. In 1995, the ratio of employment costs to gross value added for Daewoo Group was 46.79% and it is much lower than the corresponding figure for the Korean economy (60.70%). The comparison, however, does not prove that value added is less favorably distributed to the employees of Daewoo since the production technology used by Daewoo companies is more capital intensive than that used by many others. During the 1992-95 period, the ratio of employment costs to gross value added in Daewoo Group exhibited a similar pattern to the ratio in the Korean economy.

&lt;Table 6.3&gt; Ratio of Employment Costs to Gross Value Added (%)

	1992	1993	1994	1995
Daewoo	48.23	45.81	44.88	46.79
Korean Economy	61.00	60.40	60.00	60.70

Source : KMCC and Ministry of Labour

The ratio of employment costs to gross value added for the Korean economy is much smaller than those for the Japanese or U.S. economies (e.g., the ratio for Japan is 73% in 1992 and for the U.S.

76.1% in 1991). This is another issue that trade unions in Korea are concerned about.

## 6-2. Employment

Table 6.4 shows that the employment of Daewoo Group appears to be relatively stable over time although at the company level, some variations are observed. For example, the number of employees of Daewoo companies in the automobile industry is steadily increasing while the opposite is true for Daewoo Securities in the stock industry. Percentage of Daewoo employees in the total number of wage earners in Korea is about 0.64% in 1995. However, this figure should be taken as a lower bound because Daewoo Group has hundreds and even thousands of sub- and sub-sub-contractors. In other words, if Daewoo Group goes bankrupt, not only employees of Daewoo Group lose their jobs, but also thousands of employees of Daewoo sub-contractors will suffer from the closure, not to mention the overseas employment. A recent incidence of Hanbo Group bankruptcy proves this point very well. In 1996, top 5 Chaebol Groups in Korea (Samsung, Hyundai, Daewoo, LG and SK) are said to own 206 companies and employ about 11% of workers of the mining and manufacturing sector. It shows us how much Chaebol Groups in Korea are important and can be influential to the Korean economy.

In terms of the portion of Daewoo employment in the industry, Daewoo Heavy Industries is the most significant company in Daewoo Group. It employs about 27% of workers in the shipbuilding and heavy machinery industry in 1995. Daewoo Heavy Industries produces

vessels such as crude oil tankers, product carriers and containerships as well as a wide range of machinery, equipments and construction vehicles. Daewoo companies in the automobile and electronics industries are also significant in the size of employment. They employ about 11% and 8% of workers in the automobile and electronics industries respectively in 1995. In the service sector, on the other hand, Daewoo Corporation (Wholesale and Retail in the table) has the most employees but its portion in the industry is not so large compared with that of Daewoo Securities (Stock in the table).

<Table 6.4> Number of Employees of Daewoo Group by Industry

	1993	1994	1995
Electricity	232( 0.19)	298( 0.23)	316( 0.24)
Electronics	20,673( 8.67)	21,018( 8.46)	21,004( 8.06)
Automobile	18,009( 9.89)	18,458(10.78)	20,009(11.49)
Heavy Industries	19,564(27.17)	19,669(27.63)	19,588(27.38)
Other Manufacturing	423	314	371
Construction	624( 0.24)	737( 0.26)	786( 0.28)
Wholesale & Retail	12,232( 6.03)	11,579( 5.96)	11,652( 5.91)
Hotel & Food	1,329( 1.74)	1,382( 1.88)	1,584( 2.23)
Stock	2,798(11.38)	2,698(10.06)	2,686(10.25)
Other Service	1,486	1,501	1,636
Other	613	819	1,252
Total	77,983(0.67)	78,472(0.65)	80,884(0.64)
No. of Companies	22	22	22

Source : KMCC and Ministry of Labour

Note : 1) Numbers in parentheses are percentage of Daewoo employees in each industry.

2) In October 1994, Daewoo Heavy Industries was found by merging with Daewoo Shipbuilding & Heavy Machinery. Therefore, in the table above, number of employees in Machinery does not appear from 1994.

In sum, even though total employment of Daewoo Group compared to total employment in Korea is not so large, its impact on the Korean economy should not be taken lightly since Daewoo Group has hundreds of sub-contractors which employ tens of thousands of workers. Also, the employment level varies greatly among companies in Daewoo Group. Daewoo Electronics hires the most workers in Daewoo Group and Daewoo Heavy Industries has the largest portion of employment in its industry. In the service sector, Daewoo Corporation hires most workers and Daewoo Securities has the largest portion in the stock industry. Even though the size of employment of Daewoo Group in the economy is not significant, the size of employment of some companies in their industries is quite large.

Concerning non-regular workers including contract workers, it is difficult to estimate how many non-regular workers Daewoo companies employ. However, the number of non-regular workers shows an increasing trend in Korea, so it is reasonable to assume that the number of non-regular workers in Daewoo companies is also increasing. In the case of Daewoo Motor Co., Ltd., the number of contract workers has certainly increased since 1992 as seen in Table 6.5

<Table 6.5> Number of Contract Workers in Daewoo Motor

	1992	1993	1994	1995
No. of Contract Workers	512	621	755	1162
Rate of Growth	-	21.3%	21.6%	53.9%

Source : Daewoo Motor

At the same time the number of foreign workers in Daewoo Motor is also increasing. In 1995, there were more than 2,000 foreign workers

worked in Daewoo Motor. These foreign workers primarily come to Korea as a trainee status and stay for 3 to 6 months. In 1995, Pu-Peoung plant of Daewoo Motor employed about 8,000 regular workers, about 1,100 contract workers and about 350 permanent foreign workers. Therefore, 15% of total employment consists of contract workers and foreign workers. Origin of foreign trainees is shown in Table 6.6.

<Table 6.6> Origin and Number of Foreign Trainees (1995)

Origin	Romania	India	Indonesia	Vietnam	Rhillippines
Number	130	800	15	150	150

Source : Daewoo Motor

Note : The numbers are approximated.

Subsidiaries and plants of Daewoo Motor in foreign countries hire a considerable number of foreign workers as well. As of 1997, Daewoo Motor hires about 41,000 foreign workers, which is about three times as many as domestic employment of Daewoo Motor, in Romania, India, Poland, Indonesia, Vietnam, Phillippines, China, Iran, Czechoslovakia and Uzbekistan. Among these counties, Daewoo Motor in Poland hires the most employees.

Let us move to the issue of employment security of Daewoo Group. Employment security is now a hot topic in Korea because under the new Korean labour law, which was amended in December, 1996 and again amended in March, 1997 following nation-wide strikes, restrictions on layoffs are relaxed. Before the amendments, employers were not allowed to dismiss their employees without justifiable reason. After the amendments, however, employers can dismiss even a group of their employees for management reasons

including M & A. Even though the management reasons for dismissal have to be urgent under the new labour law, it certainly opens the gate to dismissal more. Many trade unions in Korea now try to make up this loss by introducing employment security clauses in the collective agreement.

Whether employment security clauses are adopted in collective agreement depends on the strength of union and union density. A recent survey on employment security clauses in collective agreements indicates that about 25% of companies have employment security clauses in their collective agreements. Many Daewoo companies have such clauses. For example, the 1994 collective agreement of Daewoo Motor includes the company responsibility for the transfer and continuation of employment, working conditions and union in case of M & A. Sometimes, unions voluntarily freeze wages in order to secure employment. This phenomenon is observed in Korea nowadays.

### 6-3. Other Working Conditions

While the wages and employment conditions of Daewoo are above industry averages, other working conditions such as employee benefits and education and training investments of Daewoo do not seem to be much better than industry averages. Table 6.7 presents the ratios of employee benefits and education and training costs to the total costs of goods and services produced in 6 selected Daewoo companies.

It is seen from the table that the share of employee benefits is

generally larger than the share of education and training costs in the total cost. Also, the share of employee benefits is the largest in Daewoo Heavy Industries whose union is known to be very militant. Note, however, that its share is not much larger than the average. In fact, except 1993, its share is a bit smaller than the average. It implies that employee benefits in heavy industries in Korea are in general quite large.

&lt;Table 6.7&gt;

Employee Benefits(EB) and Education and Training Expenses(ETE)

	1993		1994		1995	
	EB	ETE	EB	ETE	EB	ETE
Daewoo Electronics	0.89 (1.00)	0.10 (0.24)	0.95 (0.94)	0.12 (0.23)	1.06 (1.08)	0.13 (0.29)
Daewoo Telecom	1.62 (1.06)	0.21 (0.12)	1.15 (0.89)	0.18 (0.14)	1.27 (0.78)	0.21 (0.11)
Daewoo Motors	0.39 (1.01)	0.08 (0.34)	0.01 (0.82)	0.12 (0.11)	-	0.12 (0.14)
Daewoo Heavy Ind.	2.61 (2.20)	0.09 (0.26)	2.37 (2.39)	0.10 (0.28)	1.93 (1.94)	0.11 (0.24)
Daewoo Corporation	1.52 (1.14)	0.03 (0.03)	1.42 (1.12)	0.04 (0.04)	1.09 (0.94)	0.02 (0.02)
Daewoo Develop.	0.30 (2.04)	0.25 (0.08)	-	0.26 (0.09)	-	0.34 (0.10)

Source : KMCC and Ministry of Labour

Note : 1) Numbers in parentheses are industry averages.

2) All numbers are percentages in the total cost of goods manufactured.

On the other hand, the share of education and training costs in the total cost is quite small not only in Daewoo companies but also in many industries (all the shares are less than one percent). Education and training at the company level have been constantly emphasized by policy makers in Korea and well educated and well-trained human

resources are known as an important factor in sustaining economic growth. Despite the importance of education and training, investment on human resources development is not sufficient enough in Korea as shown in the above table. This problem has to be solved in near future in order for the Korean economy to keep up a high rate of growth. Among the six companies listed in Table 6.7 Daewoo Development has the largest share of education and training spending, but its share is only 0.34 percent in 1995 although it is three times as large as the industry level (0.10).

Although working hours in Korea has been declining, it is still long in the international standard. The normal hours of work set by the law is 8 hours per day and 44 hours per week but actual hours of work is about 49 hours per week in 1995. Many Daewoo companies stipulate normal hours of work in their collective agreements. For example, the collective agreement of Daewoo Motor sets the normal hours of work as 8 hours per day and 44 hours per week and that of Daewoo Electronics sets the normal hours of work as 8 hours per day and 42 hours per week in 1996. The actual hours of work in Daewoo companies are longer than legal or collectively agreed hours per week due to long overtime although overtime shows a declining trend. For example, actual hours of work in Daewoo Motor was about 52 hours per week in 1995 and 51 hours per week in 1996. The decrease in actual hours of week is due to the decrease in overtime. Note that the actual hours of work in Daewoo Motor is longer than the average actual hours of work in the manufacturing sector in Korea. Reduction in hours of work is a problem that the trade union in Daewoo Motor is faced with.

## 7. Industrial Relations of Daewoo

### 7-1. A Short History

Until the mid-1980s, the basic labour rights (right to organize, right to bargain collectively, right to strike) of Korean workers had been limited so that a typical labour-management relationship in Korea could be characterized as one way relationship in which employers' rights were unilaterally exercised. In the course of industrialization since 1960, employers had used a combination of low wage and long working hours as a means to obtain their companies competitiveness in the market. Korean government also took a side with employers by suppressing labour movements using public forces. Labour laws also restricted the basic labour rights.

This kind of labour relations was also observed in Daewoo before 1987, the year of the declaration of Democratization (or often called the Struggle of Workers). Workers were extremely divided and carried out repetitive work without enough rest. In addition to the regular hours of work, workers usually worked 3 hours of overtime per day and sometimes more. In 1986, the average monthly hours of work were 245 hours for Daewoo employees, which is equivalent to 2,940 hours of work per year. Employers of Daewoo used a divide and rule strategy to control workers and thought of it as the most efficient way to control workers and enhance productivity.

It was possible for Daewoo employers to adopt such a harsh labour management because (1) workers in some companies were not organized or even though they were organized, they did not have

enough power to resist the employer labour control, (2) the government closed its eyes to unfair labour practices, and (3) employers did not want to recognize unions and therefore used every possible ways to interfere with union organizing activities.

However, the authoritarian labour management was no longer possible after 1987 as a victory of widespread trade union movements. The 1987 labour movement changed the pre-modern labour relations to more balanced labour relations. At least, unions gained more power and autonomy. In the case of Daewoo companies, union leaders felt that they did not have power to control their rank and file, so they decided to form a coalition. In 1990, Daewoo Trade Union Council(DTUC) was established to this end. As of 1994, DTUC had 16 unions and about 42,000 members. DTUC does not have the right to bargain with Daewoo Group, but it publishes a union newspaper, involves in the fight for rehiring workers who were laid off during strikes, and produces a guideline for wage and employment negotiations.

It seems at least on the surface that employers in Daewoo companies moved from the old labour management in which they directly control workers without recognizing unions as a partner to the new labour management in which they try to work with and to solve problems together with unions. Currently, unions in Daewoo companies as well as DTUC face new problems since employers want to introduce various management rationalization policies in the workplace such as re-structuring and re-engineering, effects of which may be the individualization and dehumanization of the workforce. Union leaders in Daewoo companies are worried that these policies may make employees follow the ideology of productivity

indiscretionally. Unions in Daewoo companies are now dealing with these new problems and searching for the answer.

## 7-2. Trade Unions in Daewoo

Most of trade unions in Daewoo have a long history but it was after 1987 that their influence became significant. The Daewoo Trade Union Welfare Council which was established in 1987 to improve working conditions of union members of Daewoo Group was transformed into DTUC in May 1990. DTUC is still a council, not a union so that it does not have the right to bargain with employers like the Association of Hyundai Trade Unions. However, under the new Korean labour law (Article 29.2 : Any person who has been authorized by a trade union or by an employer or employers association to bargain and to make a collective agreement may exercise his/her power within the scope of the authority which trade union, or employer or employers association has granted.), DTUC can have the right to bargain on behalf of their member unions (not all unions in Daewoo Group belong to DTUC), if they give a proper authority to DTUC.

Under the new labour law (Article 5 : Workers are free to establish a trade union or to join it, except for the case of public servants or teachers who are subject to other enactments.), it is, in principle, possible to have more than one union even in a plant or company. However, Article 5 will be put into effect after January 1, 2002 (Article 5.1 in Addenda). Workers of Daewoo Group are no doubt subject to Article 5.1 in Addenda which limits the right to organize

until 2002 and the delay of enforcement of Article 5 is considered as an important factor that hinders the growth of union members in Daewoo as well as in Korea.

It is difficult to accurately estimate union density of Daewoo Group as a whole. In 1994, 16 company unions were listed in DTUC and the number of union members in those companies were about 42,000. Total number of employees in those companies in 1994 was 78,473, so the unionization rate of Daewoo Group is about 53.5%, which is much higher than the national union density (13.5%) in 1994. The unionization rates of major Daewoo companies in 1994 are presented in Table 7.1.

<Table 7.1> Union Density of Major Daewoo Companies in 1994

Company	Union Density
Daewoo Electronics	52.6%
Daewoo Electronic Components	79.7%
Orion Electric	75.2%
Daewoo Motor	64.1%
Daewoo Precision Industries	55.0%
Koram Plastic	67.8%
Daewoo Heavy Industries	67.1%
Keangnam Enterprises	41.7%
Daewoo Development	37.3%
Daewoo Securities	74.1%

Source : Daewoo Trade Union Council, 1994

Note : Union density(=number of union members/number of employees) is calculated by the author.

### 7-3. Comparative Industrial Relations Between Daewoo and Other Companies

Unions in Daewoo are relatively strong, compared with unions in other companies in Korea. Although it varies from company to company, most companies in Daewoo are highly unionized and their unions seem to have considerable discretion over issues such as health and safety policies. For example, Daewoo Shipbuilding Union is given by collective agreement the right to suspend work if the union thinks that work may cause serious accidents.

<Table 7.2>

Comparison of Industrial Relations of Three Major Companies in Korea

	Steel Company (P Group)	Motor Company (H Group)	Shipbuilding Company (D Group)
union's attitude	passive	mediocre	active
informal org. in unions	not developed	relatively well developed	well developed
management's control over union	strong	medium	weak
union's organizing power	weak	medium	strong
domain of union activity	within company	within company	outside company coalition with other unions
union's main measure	consultation	consultation bargaining, strike	bargaining joint strike
bargaining power	weak	medium	strong
main issues	schedule change wage increase welfare improvement	wage increase welfare improvement	participatory management wage increase

Source : Joon-Sik Park(1992)

Table 7.2 summarizes and compares the characteristics of industrial relations of three major companies in Korea including one in Daewoo. As seen in Table 7.2, Daewoo Shipbuilding Union has a strong union organizing and bargaining power and is based on various informal organizations in the workplace. Accordingly, the focus of industrial relations goes beyond the company issues and is extended to regional and national issues.

#### 7-4. Collective Agreements

Collective agreements reflect workers and employers interests. In general, unions that represent workers submit a proposal regarding wage and employment conditions to employers and the employers react to the proposal by either accepting or rejecting it. Collective agreements are the outcome of such procedures.

A recent survey done in 1996 by DTUC indicates that many Daewoo unions consider the change of wage and personnel management system in their companies as the most important issue in collective bargaining. This is a conspicuous change given the fact that the increase in wage was the most important issue for unions not very long ago. The change in union interests reflects the change in workers interests as well as the change in environments surrounding labour relations. Currently, Korea is going through an economic recession and hence experiencing the shortage of labour demand. Also, many workers as well as employers fear the increasing competition from foreign companies as the Korean market opens more. This kind of economic situation in Korea affects

workers' interests and attitudes. Accordingly, unions have become more interested in the change of labour-management system than simply the wage increase.

Related to the change in environments surrounding labour relations is the emerging ideology of participatory management. As said earlier, increasing competition from foreign companies threatens the existence of many Korean companies and is considered as an obstacle the companies must overcome in order to survive in the domestic and foreign markets. In this situation, unions and employers feel that they have to move from a destructive labour relation in which both parties lose to a constructive labour relation in which both parties gain. Moving away from focussing on wage increases can be explained in this context. Wage increase is, however, still one of the important issues as seen in Table 7.3.

<Table 7.3> Union Demands in Daewoo Group (1996)

	Wage increase	Improvement of working conditions	Hours Reduction	Welfare improvement	Improvement of wage and personnel system
Daewoo Heavy Indus.	26.5	18.8	10.0	7.5	15.6
Orion Electric	39.3	12.8	6.1	11.7	17.9
Daewoo Precision Indus.	22.1	5.9	11.8	22.1	23.5
Daewoo Securities	11.9	10.2	3.4	40.7	32.2
Daewoo Motor	26.6	10.0	16.6	15.7	10.5
Daewoo Motor Sales	29.6	5.6	0.0	5.6	44.4
Hilton Hotel	18.8	9.4	0.0	18.8	43.8
Other	17.4	15.7	9.1	9.9	24.0

Source : DTUC Survey (1996)

Note : 1) Only the five most important union demands are listed in the table.

2) Numbers above are percentages.

Five out of eight company unions including those in Table 7.3 feel that the improvement of wage and personnel system is more important than the wage increase. Union priority, however, varies with company. For example, unions in Daewoo Heavy Industries, Orion Electric and Daewoo Motor think that the wage increase is still the most important subject that unions have to demand. Unions in Daewoo Precision Industries, Daewoo Motor Sales and Hilton Hotel feel that unions have to demand the improvement of wage and personnel system more. Union in Daewoo Securities puts more weight on improving welfare. It is also interesting to note that hours reduction receives no attention from unions in Daewoo Motor Sales and Hilton Hotel while it draws a fair amount of attention from unions in Daewoo Heavy Industries and Daewoo Motor.

To know the structure and main contents of collective agreements in Daewoo companies, collective agreements of Daewoo Motor and Daewoo Electronics, which are the main companies in terms of the size of union members, are introduced as an example.

### 1) Collective Agreement of Daewoo Motor (1996)

The collective agreement of Daewoo Motor can be itemized into eight parts. The contents of each part are briefly introduced in the following.

#### (1) Recognition Clauses

Daewoo Motor Trade Union(DMTU) is recognized as the sole bargaining partner in the company. Collective agreement takes precedence of the code of conducts and other regulations made by

the employer. Wage and employment conditions that are worse than the legal standard shall not be concluded by this collective agreement.

## (2) Security of Union Activities

The employer shall not disturb union activities that are legally admitted. Also, the employer shall not discriminate in matters of hiring, promotion and lay off because of union membership and holding of any office and activity in the union. The employer should recognize proper number of full-time union officers and provide necessary facilities, offices and persons for them. In case the union asks for the information on wages, working hours, employment, health and safety, production, sales, investment plans and other business performance which is necessary for normal union activity, the employer has to cooperate in providing the requested information.

## (3) Company Development Committee

The union and the employer must work hard for the development of community as well as the development of company. For the democratization of the workplace, both parties accept the principle of air management and the separation of management from ownership. To this end, Company Development Committee is established that is composed of five union members and 5 senior employer representatives. The committee meets at least once every 3 months and deals with workplace re-organization, management planning, personnel management and other improvement of management system.

#### (4) Personnel Management

The employer should establish and operate a rational and fair personnel management system and recruitment should be open in principle. The employer should obtain permission from the union when transferring union members to other jobs or other locations, should consult the union in case of lay off and discharge, and should notify the union in advance in case of promotion and demotion. The employer should pay employees 70-100% of usual monthly wages during the sick leave, short-term military service, maternity leave, and absence due to education and training. Finally, discharge and demotion should be based on the decision of Personnel Committee except when there is clear evidence of a fault on the employee part.

#### (5) Working Hours, Holidays and Vacation

Normal working hours are 8 hours per day and 44 hours per week. Overtime can be extended up to 12 hours per week when both parties agree each other. Holidays include May Day and the anniversary day of the DMTU and company as well as statutory holidays. Several types of vacations and leaves are available including annual vacation (8-10 days), monthly vacation (1 day), period vacation (1 day), maternity leave (60 days) and sick leave (within 90 days).

#### (6) Wage, Bonus and Severance Pay

The establishment and change of wage system should be made with the union consent. Wage is composed of basic wage, fringe benefits and bonus, and the bonus is paid 700% of usual monthly wage in one year. Severance pay is paid from Old Pension Insurance

Plan and 2/3 of insurance premium is paid by the employer and 1/3 is paid by the employees.

#### (7) Safety and Health

To review, plan and implement the policies concerning safety and health, Safety and Health Committee composed of 6 union members and 6 employer representatives should be established in the company. The employer should provide at least 2 hours of the safety and health education each month and conduct medical examination at least once a year. In addition, the employer should measure and evaluate the working environment at least once every 6 month in the presence of the union and should assign at least one person as a full-time safety officer.

#### (8) Welfare

The employer should establish and operate a clinic, dormitory, barber shop, laundry, and other welfare facilities and should assist in commuting, housing and scholarship for union members.

### 2) Collective Agreement of Daewoo Electronics (1996)

The collective agreement of Daewoo Electronics consists of 50 articles and can be grouped into seven parts. The contents of each part are briefly introduced in the following.

#### (1) Recognition Clauses

The employer acknowledges that Daewoo Electronics Trade

Union(DETU) represents the union members and it is the sole bargaining partner in the company.

## (2) Security of Union Activities

The employer should not discriminate against union members because of their participation in union activities and should provide assistance for legitimate union activities. The employer should allow the union to use building facilities and necessary office equipment upon the union request.

## (3) Wage, Working Hours, Holidays and Vacation

The employer should make every effort to improve the union member living standard. Wage is composed of basic wage, fringe benefits and bonus, and the bonus is paid 600% of usual monthly wage in one year. The amount of severance pay depends on tenure so that one month of salary is paid as severance pay for one year of continuing work in the company. Normal working hours are 8 hours per day and 42 hours per week. Paid holidays include May Day and the anniversary day of the DETU and company as well as statutory holidays. Vacations and leaves include annual vacation (8-10 days), monthly vacation (1 day), period vacation (1 day), and maternity leave (60 days).

## (4) Personnel Management

Personnel management on union members is done by the employer and the details of reprimands are subject to the employment regulation.

#### (5) Plant Move

The employer should consult the union in case of using contract workers and moving plants through the Labour-Management Council. Also, the employer should consult the union when the displacement of union members is expected due to business difficulties.

#### (6) Safety and Health

The employer should conduct the safety and health education for at least one hour each month and conduct medical examination at least once a year. In addition, the employer should appoint safety and health specialists in the workplace in order for them to provide necessary services to the employees. The employer should designate the whole or part of a workplace as hazardous if necessary and formulate a special safety and health regulation for the place.

#### (7) Welfare

The employer should assist in housing and scholarship for union members.

In general, collective agreements in Korea include (1) the position of trade union and its effects, (2) security of union activities, (3) personnel provisions, (4) wage and hours, (5) provisions for welfare and safety and health, so the two collective agreements introduced above are not so different from the standard collective agreement in Korea. In the case of Daewoo Motor, the provision on the Company Development Committee is distinctive and in the case of Daewoo Electronics, the provision on a plant move is peculiar. Both collective agreements take the lead in this respect.

## 7-5. Current Issues

Among issues which unions in Daewoo currently consider important are the changes in the workplace and the company culture movement. Issues surrounding the changes in the workplace stem from the conflict between the union position of humanization of labour and the employer position of productivity enhancement. Unions argue that under simple and repetitive work schemes productivity enhancement movement will inevitably increase labour intensity and damage workers health, so workers should be given more autonomy in case of job rotations and job replacements. On the other hand, employers argue that introduction and extension of lean production or JIT(Just In Time) production are needed to enhance productivity.

One distinctive feature of the changes in the workplace is the extension and reinforcement of the power of supervisors. Employers provide the supervisors with training and education in order to foster their leadership and open up more the promotion ladder to them. In particular, employers empower the supervisors to evaluate the performance of their subordinates. Unions object this policy because it can intensify monitoring and controlling on workers and bring authoritarian industrial relations. In addition unions are worried that the employer policy may weaken the power of union. That is, employees may bring problems directly to their supervisors without consulting unions.

Recently, forms of personnel and industrial relations managements appear democratic, at least on the surface. Supervisors try to listen to their subordinates and report the grievances to top management.

Unions, however, argue that this kind of changes in attitude are superficial and the employee involvement or employee participation is promoted just to increase productivity, not to give more discretion to the employees.

Another measure which employers in Daewoo adopt to increase productivity is company culture movement. Company culture movement is deployed mainly through teaching the employees the common goal, norm and code of conduct of Daewoo. For this, Daewoo advertises company philosophy, founder successful stories and so on. Daewoo employees are also encouraged to wear badge, name tag and uniform. The objective of company culture movement is said to be inducing voluntary participation from and providing motivation to employees.

Unions consider company culture movement as an ideology which serves as a base to facilitate the introduction of new production methods and changes in the workplace. In particular, unions think of the movement as a measure by which employers can control their employees more easily. Also, unions think that company culture movement can increase competition among employees and hence weaken the power of unions. In response to company culture movement, unions are engaged in various activities at the workplace, set up and activate a communication system among union members and try to reinforce their representativeness.

## 8. Welfare System of Daewoo

Welfare system in Korea may be divided into (1) government

welfare system, (2) company welfare system and (3) union welfare system. The social welfare system run and partially financed by the government includes national pension, employment insurance, medical insurance and industrial accident compensation insurance. At the company level, scholarships to the dependents of employees, housing and other welfare related facilities may be provided. Finally, unions, especially unions with large membership, independently run various autonomous organizations such as consumption society to improve the quality of life for their members.

It was not until the mid-1980s that company welfare system was fully developed in Korea. Before the mid-1980s, companies provided only minimal amounts of welfare to their employees. From the end of 1980s, probably due to the Big Struggle of Workers companies started and extended their welfare system to assist education and training, housing, and health and safety programs. Unfortunately, these benefits are usually available to the employees in large establishments, e.g., chaebols.

Daewoo Group has the following welfare programs.

#### 1) Housing Services

Daewoo provides subsidies when the employees buy or rent a house and also supplies dormitory or apartment for the employees.

#### 2) Medical Services

Daewoo provides medical services for the employees at a regular base and designates its own hospitals or clinics for the employees to have easy access to medical services.

### 3) Scholarships

Daewoo provides scholarships for the dependents of the employees.

### 4) Assistance to Activities in Holidays and Vacation

Daewoo provides some financial assistance for activities during regular holidays and designates company resorts so that the employees can use the facilities in the resorts during their vacation.

### 5) Automobile Services

Daewoo subsidizes automobile maintenance expenses, provides parking lots for the employees and supplies automobiles to high ranking managers.

### 6) Other Services

Daewoo provides many education programs including English conversation courses and computer learning courses for white collar employees, and subsidizes the expenses incurred by learning at outside institutions. Daewoo also provides financial support in important family occasions of the employees.

Looking at company welfare programs in more detail, Daewoo Electronics reserves a fund for housing so that the employees can borrow money at a very low rate of interest (3% per year) which is lower than the bank interest rate. Moreover, the company fully pays for the tuition fees from elementary school to university or college for the dependents of union members. Daewoo Motor has similar

programs. The company runs housing, scholarship and pension insurances and fully pays for the tuition fees from elementary school to high school and half of the tuition fees of university or college for the dependents of union members.

Union welfare system is not well developed in Daewoo. Daewoo Electronics, Daewoo Motor and Daewoo Shipbuilding all run a consumption cooperative society autonomously and Daewoo Shipbuilding operates various cultural programs in addition.

## 9. Human Resources Development Programs of Daewoo

Daewoo HRD programs mainly consist of general education, functional education and globalization education. The general education in Daewoo is targeted for all employees with different ranks. It includes OJT programs for newly hired people, education, especially computer education, provided to the incumbents, Daewoo business school offered to managers and executive seminars for the executives in Daewoo.

The functional education in Daewoo is composed of basic education and special education. The basic education includes production, purchasing, accounting, marketing, R&D, production cost, and industrial relations educations that are required to obtain the basic management skill. On the other hand, special education includes various education programs that foster specialists in the company. Such programs are factory management specialist, marketing specialist, personnel and industrial relations specialist, cost analysis specialist, and information management specialist educations.

Finally, the globalization education is provided to employees who work or are about to work overseas in order for them to improve their management skills and easily adapt to cultural and language differences between home and host countries. The globalization education is consistent with the Daewoo goal of expanding overseas business and is a distinctive feature of HRD programs in Daewoo. In line with the globalization education Korean language courses are offered to employees in host countries.

To provide the three kinds of education programs Daewoo runs two HRD institutes in Seoul and Yong-In. Especially, job training centers located in Daewoo Motor Pu-Pyeong plant and Daewoo Shipbuilding provide education and training for blue collar workers in Daewoo Group. Beside these HRD programs each Daewoo company often runs its own HRD programs. For example, Daewoo Electronics offers Family Training in which all workers participate every year.

## 10. Regional Activities of Daewoo

Daewoo has involved in various educational and academic activities at the national and regional levels. For example, Daewoo runs Aju University, which is located in Soo-Won, through Daewoo and Ji-Sung Academies. Two technical colleges (Keo-Jae and Dae-Chun Technical Colleges), one elementary, one middle, one high schools and one kindergarten are also run by Daewoo. In 1994 Daewoo donated about 46 million US dollars to these institutes and in 1995 the amount was increased to about 71 million US dollars.

Daewoo has supported educational development in society by providing financial aids to various research activities which have led to publishing and translating books periodically. As a result, 1,094 research projects have been funded by Daewoo from 1981 to 1995. In addition, Daewoo has assisted 414 research projects through holding seminars during the same period. Until 1995, 307 books have been published under Daewoo name.

Many Daewoo companies have involved in community activities. Famous among these activities are environment protection campaigns and industrial accident free campaigns. For example, the union and employer of Daewoo Electronics in Gu-Mi participate in regional development activities and environment protection campaigns. Additionally, they regularly visit orphanages and asylums for the aged and donate foods and money to those institutions. They sometimes pay a visit to a military unit in a remote area to give moral support to soldiers.

## 11. Concluding Remarks

International trade, foreign direct investment and multinational companies facilitate economic integration between countries. In particular, the role of multinational companies is very significant in such integration process. Multinational companies should deserve more attention not only because they affect the economies of home and host countries but also because they influence employment conditions and industrial relations of home and host countries and sometimes cause cultural conflicts between the two countries.

As seen from the case of Daewoo Group, wage and employment conditions of workers in Daewoo are above the industrial and national averages. Industrial relations of Daewoo also seem fair in view of Korean labour laws and collective agreements. The question is whether the industrial relations of Daewoo observed in other countries are fair and reasonable as well. It seems that many multinational companies in Korea including Daewoo do not pay much attention to the Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy (ILO 1977), nor OECD Guidelines for Multinational Enterprises (OECD 1976). It is needed urgently that Korean multinational companies develop codes of conduct or guidelines for their overseas subsidiaries and branches. For example, multinational companies in Japan set up Japan Overseas Enterprises Association (JOEA) and the association has its own guidelines for overseas direct investment.

Foreign direct investment and multinational companies are becoming more and more important part of Korean economy. For Korean economy to take off again, expansion of foreign direct investment and multinational companies may be necessary. Unfortunately, employers of multinational companies in Korea seem to behave differently when they move to foreign countries, especially developing countries. Bad industrial relations in host countries will build up bad reputation and as a result may lose foreign markets in the long run. Employers in multinational companies in Korea should keep this simple truth in mind. Trade unions in Korea should also pay more attention to the industrial relations practised overseas and work with employers to construct codes of conduct and guidelines for overseas investment.

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