

# **Trade Unions, Restructuring and Strikes in the Korean Banking Sector**

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**A thesis submitted to the University of London for the Degree of Doctor of  
Philosophy in Industrial Relations**

**2006**

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## ABSTRACT

The main purpose of this thesis is to look at how and why some strikes are more successful than others by applying mobilization theory and organizational leaning (OL) theory in the case of the Korean banking sector. It aims to observe the relationship between the effectiveness of mobilization and OL in unions by looking at how learning from previous strikes influenced strategy-making and outcomes of subsequent strikes.

By focusing on four strikes in the Korean banking sector, the research explores how OL in unions affects the effectiveness of mobilization. It is thus intended to revisit and contribute to the existing theories of mobilization and OL.

The sector has undergone massive restructuring since the national financial crisis, which was part of an Asian foreign currency crisis, in 1997. The Korean Financial Industrial Union (KFIU) organized four strikes between 1998 and 2003 against the restructuring in order to protect employment security. The union failed to gain satisfactory results at the first and third strikes, but were successful at the second and fourth actions.

The evidence, based on interviews and primary and secondary documentation, from these four strikes suggests that the more successful results derived from the existence of positive learning (or OL) from previous strikes. In other words, when the union conducted higher-level learning, such as the adjustment of overall norms or rules and the change of organizational structures, it was able to increase strategic capacity. It was able to devise a more effective strategy, thereby more effectively mobilizing resources and opportunities. This, in turn, led to successful outcomes from the following strike.

Studying the learning processes in unions reveals the function of dialogical organization in power (or mobilization). Thus, unions are more likely to succeed in mobilization when they conduct meaningful dialogical learning.

## Declaration

This is to verify that the work presented in this doctoral thesis and submitted for examination is mine alone.

Choi, chung-IL  
**Chung IL Choi**

## **Acknowledgements**

I am indebted a great deal to my supervisor, Professor Richard Hyman. He has guided and encouraged me throughout the research process. Without his comments and guidance this work would never have come to fruition. I also appreciate his affection for and contribution to labour and labour movement.

I would also like to offer my gratitude to union activists of the KFIU and friends (Graeme, Kong KG, and Se Hyun) who have helped with my research. I wish to thank the Department of Industrial Relations at LSE and the British Council in Seoul for providing me with financial supports. In addition, my brothers have provided me with emotional support.

I hope that this thesis will be of some assistance to union activists who are fighting and dedicating themselves to workplace justice.

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## Abbreviations

<b>ACD:</b>	Automatic Call Distribution
<b>ASS:</b>	Application Scoring System
<b>ATM:</b>	Automatic Transfer Machines.
<b>BIS:</b>	Bank for International Settlement
<b>BSS:</b>	Behaviour Scoring System
<b>BO:</b>	Branch Office
<b>BOK:</b>	Bank of Korea.
<b>CAR:</b>	Capital Adequacy Ratio
<b>CBA:</b>	Collective Bargaining Agreement
<b>CC:</b>	Central Committee
<b>CD:</b>	Cash Dispenser
<b>CEO:</b>	Chief Executive Officer.
<b>CHB:</b>	Cho Hung Bank
<b>CHBU:</b>	Cho Hung Bank Union (a branch of KFIU).
<b>CMP:</b>	Committee of merger preparation.
<b>CP:</b>	Committee of Politics
<b>CRM:</b>	Customer Relation Management
<b>CSS:</b>	Credit Scoring System
<b>CSW :</b>	Committee of Social Welfare
<b>CTI:</b>	Computer Telephony Integration
<b>CU:</b>	Committee of Unification
<b>DM:</b>	Direct Mail
<b>EC:</b>	Executive Committee
<b>EMC:</b>	Emergency Measure Committee
<b>EFTPOS:</b>	Electronic Fund Transfer at the Point of Sale
<b>FEC:</b>	Financial Education Centre.
<b>FHC:</b>	Financial Holding Company
<b>FOC:</b>	Full-time Officer Committee
<b>FSC:</b>	Financial Supervision Commission
<b>FKTU:</b>	Federation of Korean Trade Unions
<b>FY:</b>	Fiscal Year
<b>HB:</b>	Housing Bank
<b>HBU:</b>	Housing Bank Union (a branch of KFIU).
<b>HRM:</b>	Human Resource Management
<b>IMF:</b>	International Monetary Fund
<b>IR:</b>	Industrial Relations
<b>IT:</b>	Information Technology.
<b>IVR:</b>	Inter-active Voice Recognition
<b>KCTU:</b>	Korean Confederation of Trade Unions
<b>KFFU:</b>	Korean Federation of Financial Unions (ex-KFIU: a federation of enterprise unions)
<b>KFB:</b>	Korean Federation of Banks
<b>KFIU:</b>	Korean Financial Industrial Union
<b>KILE:</b>	Korean Institution of Labour Education
<b>KILS:</b>	Korean Institution of Labour and Society
<b>KLI:</b>	Korea Labour Institute
<b>KMB:</b>	Kook Min Bank.
<b>KMBU:</b>	Kook Min Bank Union (a branch of KFIU).
<b>KOILAF:</b>	Korean International Labour Foundation

<b>KTC:</b>	Korea Tripartite Commission.
<b>LAN:</b>	Local Area Network
<b>LRC:</b>	Labour Relations Committee.
<b>MBO:</b>	Management By Objectives
<b>MECB:</b>	Management Evaluation Commission of Banks
<b>MOFE:</b>	Ministry of Finance and Economy
<b>M&amp;A:</b>	Merger and Acquisition
<b>MOU:</b>	Memorandum of Understanding.
<b>MP:</b>	Member of Parliament
<b>NO:</b>	National Office
<b>NC:</b>	National Congress
<b>NGO:</b>	Non Government Organization
<b>OJT:</b>	On the Job Training
<b>OL:</b>	Organizational Learning
<b>PDS:</b>	Predictive Dialling System
<b>P&amp;A:</b>	Purchase and Acquisition
<b>PB:</b>	Private Bankers'
<b>PFMC:</b>	Public Fund Management Cooperation
<b>RC:</b>	Representative Congress
<b>RM:</b>	Relation Manager
<b>SB:</b>	Sub-branches
<b>SCFR:</b>	Special Committee of Financial Restructuring.
<b>SHB:</b>	Shin Han Bank
<b>SHG:</b>	Shin Han Financial Group (a financial holding company).
<b>TULRAA:</b>	Trade Union and Labour Relations Adjustment Act
<b>VDU:</b>	Visual Display Unit
<b>WC:</b>	Women's Committee

# CHAPTER 1. INTRODUCTION

## 1.1. Research purpose and questions

The main purpose of this thesis is to look at how and why some strikes were more successful than others by applying mobilization theory and organizational learning (OL) theory in the case of the Korean banking sector. It will also aim to observe the relationship between the effectiveness of mobilization and OL in unions by looking at how learning from previous strikes influenced strategy-making and outcomes of subsequent strikes. By seeking how mobilization and OL take place at unions in the banking sector, it is thus intended to revisit and contribute to the existing theories of mobilization and OL.

In addition, the thesis looks at changes of employment relationship and industrial relationship in the Korean banking sector during a historical restructuring period. The sector has undergone massive restructuring since the national financial crisis, which was part of an Asian foreign currency crisis<sup>1</sup> (or Asian financial crisis), in 1997. The Government's measures – restructuring of the banking sector – were undertaken in order to stabilize the sector and promote global competitiveness. Management strategy in the banking sector has also rapidly changed, from the pursuit of market share to the pursuit of profitability and from the offer of life-long employment to that of employment flexibility. As a consequence, the employment relationship has changed from employment security to employment insecurity, and the industrial relationship has been transformed from paternalism to endless restructuring for profitability and from moderation to militancy.

In the process of restructuring, the Korean Financial Industrial Union (KFIU) has organized four strikes against the restructuring in order to protect employment security. The union failed to gain satisfactory results at the first and third strikes, but were successful at the second and fourth actions. This research analyzes how and why the KFIU were more successful in some cases, by employing OL theory and mobilization theory. Through an empirical case study of these four strikes in the Korean banking

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<sup>1</sup> See Sections 1.2.3 and 4.3.1.

sector I will argue that the differences in strike effectiveness derives from the content of OL from previous strikes.

In addition, the thesis will show how and why IR in the Korean banking sector, due to financial globalization, shifted towards flexibility and centralization in the process of restructuring (while IR in Western countries shifted toward flexibility and decentralization).

The foregoing brief summary suggests the following research questions. How and why were some strikes more successful than others? How do unions learn? Why did restructuring happen in the banking sector? What did change in the banking sector after the restructuring? How did trade unions respond to the restructuring? What roles did the major institutional actors play in these interactive processes? How have trade unions constructed strike strategies against restructuring? What is the content of unions' learning?

## **1.2. Background of the research problems**

### **1.2.1. Restructuring**

Restructuring describes the broad changes in economic policies designed to enable nation states to adjust to new conditions of reduced growth rates, rising inflation or deflation and high unemployment in the wake of recession and economic crises (Beauregard, 1989: 8). The concept was used more specifically in the 1980s to refer to the changes in the relative importance of industries within the advanced industrial economies, what is now called the manufacturing-service shift. In the 1990s, it was widely used to refer to the strategies adopted by enterprises in their attempts to restore profitability and competitiveness. In both its broad and more specific uses, the concept of restructuring has become closely linked with the analysis of the decline of old and the emergence of new industries and explaining the policies adopted by governments and enterprises in their attempts to cope with the experience of a protracted period of international recession (Poynter, 2000: 5-6).

In the leading capitalist nations, governments have adopted the rhetoric of the free market although, paradoxically, the policies introduced have often led to more direct forms of state involvement in the domestic labour market and in specific industries. The area in which, arguably, most success has been achieved, labour market reform, has enabled businesses and governments to pass on the worst effects of recession to their own domestic working classes (Poynter, 2000: 7).

Gallie et al. argue that there are four areas of change that have driven restructuring. The first has been the rapid adoption of new computerized and information technologies. The second has been the emergence of a new philosophy of management, known as human resource management. The third has been the shift away from standard forms of employment contract to an increased use of non-standard contracts, such as part-time and temporary work, which have threatened to fragment, even polarize employment conditions. Finally, there has been a marked increase in labour market insecurity resulting from a continuous process of reorganization and staff reduction (1998: 1).

While there has been a widespread acceptance of the potential significance of these changes, there have been sharp differences in views about their relative importance, their extent, and the nature of their impact. For some scholars, these developments represent a fundamental change from traditional production system and employment relations, such as the rigid forms of hierarchy associated with Taylorist methods of production, to the highly differentiated division of labour due to the development of new technologies and the change of market conditions resulting from increased competition (Bell, 1974; Piore and Sabel, 1984; Kern and Sabel, 1992; Boyer, 1988; Womack et al., 1990). They argue that the employment relationship should be based increasingly on high levels of discretion for employees, the reduction of status distinctions within the workforce, and the adoption of organizational policies designed to secure the long-term commitment of employees. In effect, the traditional class distinctions in the nature of the employment relationship would be dissolved (Gallie et al.:1998: 1-2).

Others (Elger, 1991; Hyman, 1991; Berggren, 1993), however, have viewed these changes in a very different light, seeing them rather as means for employers to reassert their control in a period of trade union weakness and to intensify the work process,

leaving intact or even reinforcing the core principles of the traditional pattern of employment relations (Gallie et al., 1998: 2).

The restructuring of work processes has been regarded as an important source of enhanced productivity, competitiveness, and profitability although there has been criticism of the impacts on employment relations. While some scholars have argued that such changes can deliver not only improved productivity and competitiveness, but also mutual benefits for workers and management within the production process (Kern and Schumann, 1984; Piore and Sabel, 1984; Oliver and Wilkinson, 1992), others contend that the changes have delivered significant productivity and profitability gains to employers at the cost of most workers' increased effort, non-wage gains and insecurity (Kelly, 1985; Elger, 1991; Smith, 1991). Furthermore, Elger argues that there is little support for projections of a cooperative employment relationship built upon such changes (1991: 47). Hyman (1991: 269) suggests that, in the past, one of the perceived benefits of restructuring for management was that, as the active, subjective character of labour was seen as a potentially disruptive factor, it could be channelled and controlled by restrictive work organization. But, today, employers increasingly appreciate that the productive potential inherent in new technology can be realized only through a contrary principle: encouraging workers' active and subjective involvement, developing their knowledge and expertise, and harnessing these to the objectives of the economy; efficiency must be achieved by working with workers' abilities, not against their personal competence (Kern and Schumann, 1984: 19-20). Furthermore, Budd (2004) argues that the employment relationship in restructuring has "a human face", balancing efficiency, equity, and voice.

Gallie et al. contend that employers are able to shape employees' behaviour and performance through performance-related personnel practices and through changes in the nature of work which affect motivation. However, they ask how far employees can continue to assimilate and reconcile the increasingly complex demands due to endless restructuring (1998: 289).

According to Poynter, restructuring in the financial sector emerged from a need to deal with four interrelated problems in America in the late 1980s. First, the industry had experienced acute economic crises; it was under pressure from a rise in foreign direct investment, which enhanced competitive pressure, a credit crisis spawned by increases

in domestic and international indebtedness and volatile market conditions caused by fluctuations in interest rates. Secondly, the financial sector had experienced continuous growth in employment levels throughout the 1970s and 1980s, but that growth had not been matched by improvements in labour productivity. From the management perspective, labour was outmoded, and tied to traditional patterns of work. Thirdly, the sector had made significant investments in information technologies that enhanced the range of products and services available but had relatively little impact upon the efficiency of work processes. Lastly, financial firms were integrated organizations with high costs incurred as a result of the continuous requirement to invest in information technologies. This burden adversely affected the potential for reaping the benefits from the provision of the high value-added products and services (2000: 42-3).

These factors made restructuring an imperative (Roach, 1991: 82-92), and strongly influenced management approaches to the solutions to be found. The solutions had five main elements: the reform of management organization towards delayering and devolution; the development of a more aggressive market orientation via the dissemination within enterprises of a client- or customer-centred approach; the use of information technologies to transform work processes; the employment of management consultants to create a new climate of change and organizational innovation; and the introduction of new approaches to employee relations towards raising productivity through downsizing and emphasizing commitment through encouraging staff to internalize management values (Kochan et al., 1986; Hammer, 1990; Hammer and Champy, 1993; Poynter, 2000).

Major transformations in the Korea banking have been driven principally by two factors, financial globalization and the 1997 Asian financial crisis. The latter led the Government to undertake mass restructuring of the financial sector in order to stabilize it as well as ensure that it remain internationally competitive (See Section 4.2 and 4.3).

### **1.2.2. Union responses to restructuring**

Trade unions have responded to the extensive restructuring led by employers and the Government since the 1980s. These responses can be described as being either militant or moderate (or cooperative), and interventionist or pragmatist according to their orientation and situation.

Militant unions have responded to the restructuring through traditional methods, such as ambitious demands with few concessions, strong reliance on collective bargaining and mobilization of union membership, use of industrial action, underlying all of which is an ideology of conflicting interests. On the other hand, moderate unions have responded to the restructuring through new-style methods (or new realism), such as more conciliatory demands with some or many concessions, strong reliance on employers, third parties or law, willingness to experiment with non-bargaining institutions (work councils or various committees), infrequent use of industrial action (or no-strike agreements), all built on a foundation of an ideology of partnership (Kelly, 1996: 80).

Union militancy obviously refers to strikes but it is also used to describe other forms of action, depending upon the speed and vigour with which they are undertaken. That is, to be militant is to take the initiative, for unions to exploit fully whatever power or influence they possess, and to pursue a possibly successful policy in a prompt, speedy manner. The aims of militant action are to exploit market advantages in order to maximize wages and to get the best possible working conditions and hours to work. It means that if unions are to maximize their returns they must uninhibitedly play the market by demanding what they think the market will bear and refusing to accept terms which are less than that. By doing this they would satisfy the criteria for militancy (Allen, 1969: 19).

On the other hand, moderate unionism has been frequently prompted by the demand to be responsible to company survival or national interests. With this responsibility in mind, employers and the government have enforced the socialization of union activities by the adoption of legislative measures that restrict and moderate unions' militancy. Thus, unions have to operate within limited scopes or legal systems and union action is limited by the systems (Ibid: 169).

The industrial relations literature on union responses to restructuring suggests that what unions choose to do in response to the restructuring shapes the eventual outcome (Bacon et al., 1996; Cooke, 1992; Eaton and Voos, 1992; Frost, 2001; Bacon and Blyton, 2002, 2004). Almost all scholars rely on a conceptualization of a union response to management strategies that arrays labour's response along a unidimensional approach, either militant or moderate (or cooperative) (Katz, 1988; Bluestone and

Bluestone, 1992; Kelly, 1996; Bacon et al., 1996). The militant are seen as simply blocking change as a means of preserving the status quo, while the moderate are viewed as willing followers of management's agenda (Frost, 2001: 541).

Scholars who support moderate unionism argue that union survival and recovery depend on the willingness of unions and their members to behave non-confrontationally, and to offer concessions to the employer; this, they argue, is the wisest course for the future of the trade union movement in an era of intensified world competition (Crouch, 1986; Bassett, 1986; Lloyd, 1986; Leadbeater, 1987; Rico, 1987; Kern and Sabel, 1992; Bacon and Blyton, 2002). On the other hand, mobilization theorists argue that militant unions are more likely to secure union survival and recovery (Kelly, 1996, 1998; Cohn, 1993; Cronin, 1979; Gall 1997, 2001). Their argument has been developed into a more wide-ranging critique of the social partnership between labour and management and a renewed theoretical focus on mobilizing trade union members (Kelly, 1996: 80-5; Section 6.3.6.1 and 8.1.5.1). Kelly contends that union moderation inhibits the growth of union activity in the workplace because an ideology of common interests erodes the willingness and capacity of union members to resist employers, who take advantage of union moderation to restructure employment at the expense of workers' terms and conditions (Ibid: 80-5).

According to a study by Bacon and Blyton, union negotiators thought they behaved rationally in the pursuit of goals although their goals and actions related to beliefs and ideologies. For example, moderate unionists placed a greater value on long-term plant survival and sacrificed the protection of manning and workloads. On the other hand, militant unionists did not believe management claims that accepting changes with little in return would secure plant survival, placing their emphasis on protecting current jobs and preventing work intensification (2004: 770).

Recent researchers have begun to emphasize the importance of context and workplace institutions in shaping the outcomes of workplace restructuring in preference to identifying points along a unidimensional continuum ranging from militant to moderate (Boxall and Haynes, 1997; Frost, 2000; Bacon and Blyton, 2004). That is, the emphasis is not on the characteristics of the union approach *per se*, but rather on the mode of interaction between unions and employers.

According to Frost (2001: 542), a greater focus should be placed on how unions engage with management on the issue, rather than on the unions' orientation (militant or moderate). She classifies union responses as interventionist or pragmatist according to the stage at which unions become involved with management and the depth of their involvement. Frost contends that unions making an interventionist response entered into negotiations at an early stage and fully involved with employers in reorganizing work, thus producing outcomes that met the needs of all stakeholders: management, workers and unions. In contrast, unions making a pragmatic response allowed management to make proposals that the union subsequently negotiated; the resulting outcomes, however, were less impressive for managers and employees (Frost, 2001: 55-6).

Bacon and Blyton (2004: 752) argue the interaction between what unions do and union ideology is important and produces different patterns of workplace change outcomes for employees and managers. Trade union actions in the negotiation process and the orientation of a union are both important and separate, but related, resources for responding to workplace restructuring. During negotiation, unions may engage in integrative bargaining, joining with management at an early stage of decision-making to explore solutions through joint problem-solving. The alternative is to wait for management proposals, and then seek to extract concessions in return for change during distributive bargaining. Thus, whether a union engages in cooperative or conflictual strategies represents a rational choice between actions following a calculation of 'how best to maximize their interests given the constraints of the situations' (Crouch, 1986: 12-3). Orientation, on the other hand, reflects deeply held assumptions or frames of reference about the employment relationship. Such ideologies of trade unionism develop over a long period of time and tend to endure unchanged in workplaces despite changes in management policy and union leadership (Blyton et al., 1996). Thus, whilst the decision to engage in integrative or distributive bargaining is a short-term rational choice, orientations reflect historical relationships within workgroups about the employment relationship.

To sum up, the above literature review of union responses to workplace restructuring show that theories of these responses have developed from approaches of unions' orientation, militant vs. moderate, to approaches of unions' engagement in management of restructuring, intervention vs. pragmatism. From the foregoing review, we can make the argument that those unions which intervene in restructuring at an early stage through

militant methods are more likely to produce better outcomes than those which enter into negotiation after management has devised a restructuring plan.

Union responses, regardless of their orientation and the kind of industry, to restructuring may differ according to the degree of the change of political and economic environments<sup>2</sup>, the originator of restructuring (government or employer), and the scale of restructuring. In the case of the Korean banking sector, the massive restructuring was introduced forcefully by the Government as a response to the national financial crisis in 1997. The result was large-scale redundancy, and previously moderate bank unions considered that the most effective response if they were to protect employees' employment security in such circumstances was through strike action (a militant method). The strike cases in the Korean banking sector will show the effectiveness of an interventionist approach to restructuring at an early stage through militant mobilization.

### **1.2.3. The Korean banking sector**

The Korean banking industry originated in the latter years of the 1890s, when Cho Sun Bank (in 1896), Han Sung Bank (in 1897), and Dae Han Cun IL Bank (in 1899) began banking business. At that time, those banks' main businesses were the operation of taxation and the lending of the Kingdom's capital (Lee et al., 2004: 23-5). All retail banks in Korea were nationalized in 1961 when a military government took power. The Government utilized the banks as a means of national economic development for the following 20 years. Since 1980, when the Government began to privatize banks, grant autonomy to bank management, and relax the entry barrier to the industry in order to solve the sector's laggardness and structural contradiction (derived from the government policy of the previous two decades), the number of retail banks has increased from five in 1969 to 26 in 1997. In addition, the amount of retail banks' assets rose rapidly, from 19.9 billion won (£10 million) in 1969 to 50,588.7 billion won (£25.3 billion) in 2000 (Lee and Kim, 2001).

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<sup>2</sup> Locke and Thelen argue that "the studies of varying degree of labour success of labours' response to restructuring between different countries are misleading because they give the impression that they are comparing 'apples with apples' when instead, given different in starting points and varying degrees of valence varying issues possess in different national contexts, they are often in practice comparing substantially different phenomena (comparison between 'apples and oranges'). In short, labour movements in different countries confront seemingly similar challenges with varying degrees of intensity and/or at different historical moments" (1995: 340).

However, during this period (i.e. post-1980), the banks had lent mainly to Chaebol groups (i.e. conglomerates), leading to an unhealthy financial situation. The banks had believed that these groups would never become bankrupt, chiefly because the Chaebol groups were too big to fail. Furthermore, according to government economic policy, banks, regardless of their will, still had to play a public service role (lending to mainly big enterprises). This role, a restriction on the banks' full autonomy, was a consequence of the FSC's control of, and involvement in, banking business (i.e. such matters as management appointments, decisions on big enterprise loans, and the permission to release new products had to be approved by the FSC: see Section 4.6.3.2). The banks also thoughtlessly borrowed short-term capital from overseas and turned to long-term lending without having financial risk management skills. As a result, the Korean banking sector could not prevent the development of a national financial crisis consequent upon a drain of foreign currency in 1997 when, as a result of the Asian foreign currency crisis, foreign investors retreated from the Asian market. The Government had to apply for an IMF<sup>3</sup> rescue fund. The IMF package was made available only on the condition that the financial sector was restructured. The main features of the restructuring were the closure of bankrupt banks, mass redundancy, the creation of larger banks through mergers, the reform of bank governance, the reform of credit practices, the advance of universal banking, and the pursuit of performance.

As a result, the number of banks decreased from 26 in 1997 to 14 in 2003. In addition, 40 percent of the sector's regular employees were fired, and the employment relationship was changed significantly, from one of lifetime employment practice and based on the seniority principle to endless redundancy (or labour flexibility) and based on the performance principle. The previous moderate industrial relationship was transformed into a militant one, with major disputes breaking out as unions sought to

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<sup>3</sup> The International Monetary Fund (IMF) is a specialized agency of the United Nations established in 1945 to promote international monetary cooperation and expand international trade, stabilize exchange rates, and help countries experiencing short-term balance of payments difficulties to maintain their exchange rates. The Fund assists members by supplying the amount of foreign currency it wishes to purchase in exchange for the equivalent amount of its own currency. The member repays this amount by buying back its own currency in a currency acceptable to the Fund, usually within three to five years. The Fund is financed by subscriptions from its members, the amount determined by an estimate of their means. The IMF provides funds to members on conditionality, that conditionality being the terms under which it provides balance-of-payments support to member states. The principle is that support will only be given on the condition that it is accompanied by steps to solve the underlying problem. Programmes of economic reform are agreed with the member; these emphasize the attainment of a sustainable balance-of-payments position and boosting the supply side of the economy. Lending by commercial banks is frequently linked to IMF conditionality (Pallister, J and Isaacs, A., 2003: 117, 276).

protect employees. Between 1997 and 2003, the unions went on strike on four occasions against the government in order to protect employment security<sup>4</sup> (Chapter. 5).

In the process of restructuring, the Government relaxed regulations on the industry and further opened the banking market for foreign investors. By September 2004, foreign investors owned 57.8 per cent of Korean retail banks' shares (FEI, 2005: 24). Therefore, the public function<sup>5</sup> of banks has almost disappeared and been replaced by competition between banks (under market principles). In response, unions have demanded that the public functions of banks be strengthened, and have made this a social issue.

## **1.3. Scope of the research**

### **1.3.1. Mobilization**

According to Tilly (1978: 69), “mobilization” identifies the process by which a group goes from being a passive collection of individuals to an active participant in public life. Mobilization theorists have studied the reasons and processes that lead individuals to take collective actions. Mobilization theory has advanced from the social psychological approach, to the structural correlates approach and the process approach (see Section 6.1.1). Mobilization theorists have developed a large body of work addressing the mobilization of labour, asking a number of key questions in their research. How do workers acquire a sense of the collective? How do they organize collectively to pursue their grievances? How do they take collective action? (Tilly, 1978; Offe and Wiesenthal, 1985; McAdam, 1988; Gamson, 1992, 1995; Kelly, 1998). These questions entail analysis of the ways in which groups perceive and acquire power resources and deploy them in the construction of different types of conflictual and collaborative relationships (Kelly, 1998: 24).

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<sup>4</sup> The main reason that bank workers could go on the strikes with strong unity and determination against the government is that they regarded the placing of the blame for banks' insolvency on bankers as an injustice. That was because the banks' insolvencies were derived, mainly, from the government's financial policy and its involvement in bank business. In addition, in Korea, bank workers were regarded as one-half, public, and one-half, private, workers. Even labour law states that the banking sector is part of the general public sector and restricts industrial actions (see Section 4.6.5).

<sup>5</sup> Previously, banks had contributed to the development of the national economy, guided by government policy. They had also privileged customer convenience, rather than profitability, with their strategy of market share extension.

For example, the process approach theorists have argued that there are four critical processes in effecting the transition from a set of individuals with a sense of injustice to a social group with collective interest: social identification, attribution, leadership, and cost and benefits calculation. First, social identification entails the process whereby people develop a sense of themselves as a distinct group, we, defined in opposition to an out-group, them, which has different interests and values. Secondly, aggrieved individuals have to blame an agency for their problem. That agency can then become the target for collective organization and action. Thirdly, both attributions and social identities are socially constructed by activists or leaders (Kelly 1998: 44). Finally, individuals will decide whether or not to engage in collective action on the basis of a personal cost-benefit calculation (Tilly, 1978: 69).

However, mobilization theories have not shown the methods by which the capacity of mobilization effectiveness<sup>6</sup> can be extended. This is very important because organizations like unions could not, even if they had favourable political opportunities and succeeded in mobilizing resources, necessarily produce successful outcomes if they did not have the ability to devise successful strategies.

### **1.3.2. Union Learning**

Organizations are increasingly paying attention to the concept of OL in order to increase competitive advantage, innovation, and effectiveness. OL occurs when an organization learns lessons from the mistakes it has made. In other words, it occurs when errors are detected and corrected, and organizations are able to carry on with their present policies and goals. It also occurs as a result of the influence of various factors, such as experience, environment, technology, and culture (Argyris and Schön, 1978; Hedberg, 1981; Fiol and Lyles, 1985; Huber, 1991; Dodgson, 1993; Morgan, 1997; Crossan et al., 1999; Argyris, 1999).

There is a substantial literature on OL and firms. However, very little has been written about OL and trade unions. This is unsurprising as organized labour has not been generally regarded as having the necessary qualities or the potential for becoming a constructive and effective subject of OL, due to a common perception that organized

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<sup>6</sup> The definition of effectiveness is the degree to which the organization is meeting its goals (Klassen et al., 1998: 3).

labour has tended to resist and impede changes in organizations (Drinkuth et al., 2001: 446). In addition, distinctive differences in organizational characteristics between firms and unions (organized labour) might also have contributed to the belief that there is little to link OL, as it is usually understood, and unions. First, firms are committed to the pursuit of profits while unions are non-profit organizations. Secondly, firms' decisions are made at the board level, the ultimate responsibility resting with a chief executive, while unions' decisions are made on a democratic basis, the result of dialogical processes between members (leaders and rank-and-file). Thirdly, firms' leaders act for self-interest while unions' leaders act as volunteers serving the interests of their members. Fourthly, firms' members operate for the organizations to which they belong, while unions seek to represent the interests of all their members (i.e. beyond the interests and performance of any single enterprise). That is, unions can exert influence at the meso- and macro-levels of societies through their industry-wide collective bargaining and input into policies and programs initiated by governments and by supranational organizations such as the European Union (Drinkuth et al., 2001: 447) as well as at the micro-level through plant representatives and works councils. Lastly, OL in firms is linked to outcomes defined by management, such as profitability and productivity, while OL in unions would focus on ways of developing better strategies to, for example, more successfully mobilize, increase participation by the rank-and-file, recruit new members, and to improve the democratic operations of the organization.

However, unions are also organizations and their leaders and members do learn through reflecting on their strategies, methods and needs. Thus, research needs to be conducted into union learning. How do unions learn? Why do they learn? What kind of knowledge do they learn, and to what level? What are the factors which inhibit and facilitate learning? In answering these questions we will be able to identify how union learning has influenced the competitive advantage, innovation, and effectiveness of unions' activities, particularly strike activity (Section 6.3.6; Chapter 7).

The KFIU have gone on four strikes since 1998 in order to protect employment security threatened by restructuring measures. Two of these strikes, those held in July 2000 and June 2003, were more successful than others. These successes resulted from improved strategies, improvements made possible by active learning from the failures of previous strikes.

I will argue that the methods by which the effectiveness of mobilization can be extended lie in conducting organizational learning (OL), thereby devising effective strategies.

## **CHAPTER 2. METHODOLOGY**

The thesis uses the qualitative case study approach as the research strategy. This chapter looks at what the qualitative case study is in more detail; it will include examinations of the research strategy and design, the method of data collection and analysis, the case selection and scope of analysis, the level of research and the research rationale.

### **2.1. Qualitative research**

This research requires application of the qualitative analysis method, a method appropriate for the study of processes where data collection, analysis, and action often take place concurrently (Gummesson. 1991: 2). Gubrium and Holstein argue that qualitative research involves the scrutiny of social phenomena, and that qualitative researchers look beyond ordinary, everyday ways of seeing social life, and try to understand it in novel ways. Qualitative researchers endeavour to understand social processes in context while quantitative researchers try to extract abstract categories from social phenomena (1997: 111-4). Thus, the quantitative research never succeeds in representing what has preceded the strikes, such as decisions of employers to fire workers, processes of rationalization, delocalization, and reorganizations, government interventions in the economy, police interventions, and so on (Leisink, et al., 1996: 12). In addition, qualitative researchers pay attention to the subjective nature of human life, not only the subjective experiences of those they are studying but also the subjectivity of the researchers themselves.

Qualitative research is not easy because it involves complex issues of interpretation. Gathering data typically takes longer, and the researchers have to develop their analytical skills and apply them to texts. Learning to think sociologically in qualitative research involves not only developing a set of discrete methodological skills but also learning how to move back and forth between theory and evidence. It involves learning the art of interpretation (Kristin, 2002: 3).

This research's main aim is to look at the degrees of, and reasons for, success in four strikes, all held in response to historically unprecedented restructuring of the Korean banking sector, through an empirical case study. The relationship between each variable and the multi-faceted nature of processes can only be understood through analytical inference based on more informed and in-depth research methods. Thus, it needs a qualitative analysis which, in this research, will be implemented by adopting the case study approach.

## **2.2. Research strategy (case study approach)**

### **2.2.1. Case study**

The case study approach is an appropriate one to adopt for this research because by placing phenomena in their wider context they can be better understood and explained. Such a study involves the detailed investigation of a single or small number of research objects in their complex contexts or settings. According to Zonabend, the case study is conducted “by giving special attention to totalizing in the observation, reconstruction and analysis of the case under study” (1992: 52). Thus, a case study is an in-depth study of the cases under consideration; this depth is, indeed, a key feature of the case study approach (Hamel et al., 1993: 1). In addition, an important advantage of a case study is the opportunity it allows for a holistic view of a process (Gummesson, 1991: 76).

Yin argues:

A case study is an empirical inquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident. The case study inquiry copes with the technically distinctive situation in which there will be many more variables of interest than data points, and as one result relies on multiple sources of evidence, with data needing to converge in a triangulating fashion, and as another result benefits from the prior development of theoretical propositions to guide data collection and analysis (1994: 13).

The descriptive case studies have tended to be traditionally given low status, and viewed primarily as being ancillary (Gummesson, 1991: 75). However, Sen argues that “whether a descriptive statement is acceptable could be resolved simply by observing” and, in making a description, investigators have to make choices which are guided by

their paradigm, access, and pre-understanding. There is no description without analysis and interpretation (1980: 353-69). The case study's unique strength is its ability to deal with a full variety of evidence – documents, artefacts, interviews and observations – beyond what might be available in the conventional historical study (Yin, 1994: 8).

Furthermore, case research is a useful strategy for studying (and explaining) processes in organizations because statistical methods are scarcely applicable to studies of processes of decision implementation, studies of organizational success and failure, and change in organizations (Gummesson, 1991: 77)

### **2.2.2. Criticism of case study approach, and responses to that criticism**

The case study approach has been criticized on the basis of the preference of validation (Hagg and Hedlund, 1978; Rubenowitz, 1980; Bryant, 1985). The critics' main arguments are as follows: 1. Case studies lack statistical validity. 2. Case studies can be used to generate hypotheses but not to test them. 3. Generalizations cannot be made on the basis of case studies (Gummesson, 1991: 75).

According to Hamel et al.:

The case study has basically been faulted for: 1. its lack of representativeness, and especially the lack of representativeness of the case used as a point of observation for the social phenomenon or issue constituting the object of study. 2. Its lack of rigor in the collection, construction, and analysis of the empirical materials that give rise to this study. This lack of rigor is linked to the problem of bias. Such bias is introduced by the subjectivity of the researcher, as well as of the field informants on whom the researcher relies to get an understanding of the case under investigation (1993: 23).

Furthermore, proponents of statistical methods argue that such methods are the most suitable for a sociology which claims to be a fully controlled form of analysis because they require a theoretical basis aimed at explaining a given social issue. Testing this theory involves a deductive process, incorporating technical procedures that could demonstrate its accuracy, while eliminating any biases on the part of the researcher or the empirical context (Ibid: 19).

However, the criticism of the case study approach has been reassessed as researchers have strengthened the process involved in producing a case study so as to supplement

the objectivity and the generalization of their research (Ibid: 23). In other words, it has been argued that the problems of the approach could be solved by bolstering the research design of case study. Yin suggests ways in which this can be done.

Case study research design should include the following five components: the study's questions, its propositions, its units of analysis, the logic linking the data to the propositions, and the criteria for interpreting the findings. In addition, a complete research design for the case study requires the development of a theoretical framework. This is because the use of theory is not only an immense aid in defining the appropriate research design and data collection but also becomes the main vehicle for generalizing the study's results (Yin, 1994: 20).

Yin also argues that the theory development not only facilitates the data collection phase of the ensuing case study. The appropriately developed theory is also the level at which the generalization of the case study results will occur. This role of theory has been characterized as 'analytic generalization', and has been contrasted with another way of generalizing results, 'statistical generalization'. In 'analytic generalization', a previously developed theory is used as a template with which to compare the empirical results of the case study. If two or more cases are shown to support the same theory, replication may be claimed. The empirical results may be considered yet more potent if two or more cases support the same theory but do not support an equally plausible, rival theory (Ibid: 26-7). In other words, case studies are generalizable to theoretical propositions and not to populations or universes. Thus, the investigator's goal is to extend and generalize theories ('analytic generalization') and not to enumerate frequencies ('statistical generalization') (Ibid: 9-10).

To sum up, the case study approach, previously criticized for its perceived lack of rigour and generalization, has been reassessed by the development of research design in order to be able to validate its theoretical basis.

### **2.2.3. Research strategy and design**

#### **Research strategy**

In this thesis, the qualitative case study approach is employed as the research strategy to investigate the following questions: 1. why did the restructuring happen, and how have industrial relations changed in the Korean banking sector? 2. Why and how did employees respond to the restructuring? 3. Why and how were some strikes more successful than others?

The research examines these questions by drawing on official data, examinations of archives and newspapers, interviews conducted by the author as well as personal observations of those working within the sector undergoing profound change.

Having established a link between unions' learning and outcomes of strikes, the research draws on mobilization theory and OL theory to conduct an analysis of data to identify conditions that could account for such differences in mobilization strategy. In addition, the research aims to establish a grounded hypothesis to explain the observed differences in outcomes discussed in Section 6.4.

### **Research design**

This research applies the five important components (identified by Yin in the preceding section) of research design necessary for theory validation. First, there are research questions mentioned above and discussed in Section 1.1. Secondly, it has a proposition: if unions could learn positively from previous strikes they are more likely to produce more successful results at their next strike. Thirdly, there are units of analysis: four strikes by Korean banking unions, discussed in Section 2.4, and Chapters 4 and 5. Fourthly, there is logic linking the data to the proposition that there is a relationship between mobilization and OL, discussed in Chapters 6 and 7. Fifthly, there are criteria for interpreting the findings, discussed in Chapters 7 and 8.

### **2.3. Method of data collection and analysis**

The data are drawn from primary and secondary sources as well as personal observations drawn from my experiences as an elected official with the Korean Federation of Financial and Clerical Labour Unions<sup>7</sup> (KFFCU) and Korea-fiet<sup>8</sup> between 1987 and 2001. Although Ganz (2000: 1019) argues that there is a potential problem of bias when the researcher is or has been an interested participant and, furthermore, utilizes personal experiences, I believe that my experience equips me with a deep

<sup>7</sup> The KFFCU is composed of various financial and clerical workers unions (representing employees of insurance companies, investment banks, foreign banks, other financial institutions, and cooperative associations, as well as shipping, computer, and other white collar workers) while the KFIU is composed of mainly retail bank workers. The KFFCU belongs to a militant national centre, Korea Federation of Trade Unions, while the KFIU belongs to a moderate national centre, Federation of Korean Trade Unions. In addition, it is a federation of unions while the KFIU is an industrial union.

<sup>8</sup> Korea-fiet is a committee composed of Korean unions (e.g. KFIU and KFFCU) that are members of Fiet (An international trade union of white collar workers).

understanding of the context of these events and enables me to access important research material, such as primary sources.

The primary sources include interviews (with union officers and members, bank managers and IR academics), the minutes of union meetings, annual reports of union activities, union newspapers, reports about strike strategies, union organization statistics, union rulebooks and union educational material. Secondary sources include daily newspapers' accounts of the strikes, academic analyses of the strikes, restructuring in the banking sector, the national financial crisis and industrial relations, and government labour statistics.

Two sessions of fieldwork were conducted during visits to Korea, in November-December 2003 and in October-November 2005. The purpose of the first visit was to conduct the feasibility study of my hypothesis and to collect data regarding the strikes and the change of industrial relations resulting from restructuring. The second period of fieldwork was semi-structured and more focused on specific issues, such as processes of union learning and of strike strategy-making; the issues were identified on the basis of an analysis of the data obtained during the first visit.

Thirty-seven people were interviewed: 21 union members (a mixture of officers and rank-and file), eight managers in retail banks, and eight researchers (or academics) of industrial relations (Table 2-1). The interviews were intensive, covering all the relevant research questions (unions' learning, unions' response to restructuring, and, in specific detail, the strikes and the restructuring of the banking sector). Fifteen union officers in the KFIU headquarters and branches were interviewed on the subjects of union learning (processes, methods, goal, levels, facilitators and inhibitors), union strategies in response to restructuring, union organization (including structure and democracy), and the strikes (mobilization, negotiation, strategy, evaluation, and learning). Of these, seven were current or former union officers from union headquarters (the current President, a former President, the general secretary of the KFIU, and four managers of strategy-making<sup>9</sup> and education), while eight were branch officers (two branch presidents and six managers of policy-making and education). They were chosen because they took charge of the strategy-making, learning, and mobilization in response

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<sup>9</sup> They take charge of union policies, and strategies and tactics of collective bargaining and industrial actions.

to the restructuring. Six rank-and-file members were asked about the process of their acquisition of information about the union, the integration of their views into union knowledge, and the effects of such learning on the strikes. They were chosen because they had a chance to experience learning processes of strikes at their banks. The eight bank managers in charge of employment relations were interviewed about changes in management strategies in response to changes in the external environment, the content of work reorganization, and changes in employment relations. Lastly, the eight IR academics were interviewed on the general subject of Korean IR and learning in unions.

This wide variety of material can be likened to the components of a giant puzzle. The underlying reason for the puzzle's existence is clear enough; it is based on Korean bank employees' response to restructuring within their sector as it underwent unprecedented changes precipitated by a national financial crisis. However, the parts played by each actor, and the actions, reactions and interactions between them are much more complex. In one sense, a portrait of the situation is revealed in the materials. However, the material can serve more than a descriptive function when selected information is interpreted through theoretical perspectives, such as mobilization theories, OL theories, and strategy perspectives (see Chapters 7 and 8). The application of these other theories enables me to provide a multifaceted view of my subjects. The inclusion of these various theoretical perspectives also enables me to distance myself from the official information's subjectivity that has already been organized by the needs of the institutions that collected it. Comments from interviews further enabled me to remain aloof from officially collected information, as well as from hypotheses formed to explain both this information and that given by fieldwork. Finally, detachment is further guaranteed by constant confrontation within the framework of the case study. If the subjectivity of the researcher and of field informants is presented within this study, it is possible to clearly distinguish them by comparison (Hamel et al., 1993: 25).

Nevertheless, we need to mention the shortcomings of the way in which OL in unions was measured. First of all, as the research focused on the processes of OL in unions related to mobilization interviews were limited to union officials and active rank-and-file members who had participated in strikes. Secondly, the content of debates within union meetings (such as the NC, the CC, and branch meetings) was not thoroughly enough investigated or described in order to be able to let the reader get a sufficiently strong sense of the integration part of OL in unions. This was actually because unions

generally did not make detailed records of debates; instead, only note summaries of debate outcomes appeared in union reports. Thus, if members not directly involved in strikes or passive in union activities had been interviewed to supplement the measurement of the effects of OL and more interviews conducted to dig out the detailed content of debates on significant issues in union meetings the research would have been much persuasive.

## **2.4. Case selection and scope of analysis**

As an object of the research, a union representing workers in the banking sector, the Korean Financial Industry Union (KFIU), was chosen. The KFIU is a particularly appropriate organization to investigate for this research as bank workers have, since the financial crisis of 1997, suffered from severe restructuring of their industry, and have responded by taking a number of strike actions. It should be noted that the restructuring has been carried out mainly by the Government (rather than the banks themselves) as one of the conditions of the IMF's bail-out was that the banking sector be extensively restructured.

Bank unions that had been enterprise unions and which had pursued their unity under a federation of bank unions, the Korean Federation of Financial Unions (KFFU), could not respond effectively at the first round of restructuring. This was because each bank's union was a relatively sovereign entity. As a consequence of ineffectual strike action in September 1998, bank unions were motivated to establish an industrial union in order to strengthen unity, and thus respond with greater effect to subsequent restructuring. The enterprise unions were dissolved, and an industrial union, the KFIU, was established in March 2000. Subsequently, between 2000 and 2003, there were three historic strikes overseen by the KFIU, two of which resulted in successful outcomes for the union. Together, these four strikes constitute useful cases as I seek an answer to my research question; how and why are some strikes more successful than others?

This research will first look, in detail, at the national financial crisis and the subsequent restructuring, the changes to both the employment and the industrial relationship in the banking sector, and the four strikes. This will be followed by an analysis of the process

of union learning through previous strike experiences and the relationship between mobilization and learning.

## 2.5. Level of this research and its rationale

This research is a descriptive, explorative and, in terms of its explanatory function, suggestive study of a single group of cases, four strikes in the Korean banking sector. This research is seen to satisfy the requirements of a descriptive and explorative study, although it can be argued that it might not be a perfect explanatory case study, in that it does not conclusively establish a causal relationship (in this research, between union learning and strike outcome).

I believe that the research is valuable as a descriptive and revelatory case study as it satisfies at least the rationale for a single-case study<sup>10</sup>. This is so because I used to work for another union in the financial sector, and therefore had the opportunity to learn about the day-to-day operations of a financial union. My observations of, and insights into, the problems of the Korean bank union strikes contribute to a significant case study because few social scientists have previously had the opportunity to investigate these historic actions. Although strikes are a common phenomenon throughout the world, there had been no bank strikes in Korea before 1998.

Furthermore, this study is also valuable in that it offers an explanation which future researchers could explore further. Scholars state that some researchers in the social science seek to achieve a deep understanding of particular events or circumstances rather than a theoretical understanding that will elicit one or more theories that could be validated by other cases and be generalizable across situations or events (Golelier, 1982: 25; Yin, 1992; Becker, 1992; Hamel et al., 1993: 29). This work suggests, but does not present conclusive proof of, a causal relationship between the degrees of strike success and of OL.

Nevertheless, a potential vulnerability of the single-case design is that the case may turn out to be not useful because of a lack of rigour in the investigation or because it is

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<sup>10</sup> Yin argues (1992: 39) that in such cases (i.e. the single-study case) the researcher has an opportunity to observe and analyze a phenomenon previously inaccessible to scientific investigation.

largely *sui generis*, and thus provides an inadequate basis for generalization. Therefore, this case study has been carefully planned in order to minimize the chances of misrepresentation and to maximize the access needed to collect the case study evidence (Yin, 1992: 42).

**<Table 2-1> List of Interviewees**

No	Date	Job	Name of Organization (or Institution)
1.	11. 2005	The current President	KFIU
2.	11. 2003	The former President	KFIU
3.	11.2005	The general secretary	KFIU
4.	11. 2003 & 11.2005	Senior manager of policy (or strategy)-making	KFIU
5.	11. 2003 & 11.2005	Junior manager of policy (or strategy)-making	KFIU
6.	11. 2005	Manager of education	KFIU
7.	11. 2005	Manager of publicity	KFIU
8.	11. 2005	The president	CHBU
9.	11. 2005	Manager of policy-making	CHBU
10.	11. 2005	Manager of education & publicity	CHBU
11.	11. 2005	Manager of organizing	CHBU
12.	12. 2003	The president	KMBU
13.	11. 2003 & 11. 2005	Manager of policy-making	KMBU
14.	11. 2003	Manager of education & publicity	KMBU
15.	10. 2005	Manager of organizing	JIBU (JeIL Bank union)
16.	11. 2005	Rank-and-file member (Chief of sub-branch)	CHBU
17.	11. 2005	Rank-and-file member	CHBU
18.	11.2005	Rank-and-file member	CHBU
19.	11. 2005	Rank-and-file member	CHBU
20.	10. 2005	Rank-and-file member	KMBU
21.	10. 2005	Rank-and-file member	KMBU
22.	11. 2003	Senior manager of HR	KMB
23.	11. 2003	Junior manager of HR	KMB
24.	11. 2003	Senior manager of HR	CHB
25.	11. 2003	Junior manager of HR	CHB
26.	11. 2003	Manager of HR	SHB
27.	11. 2003	Manager of HR	Foreign Exchange Bank
28.	11. 2003	Manage of HR	Jae IL Bank
29.	11. 2003	Manager of HR	Ha Na Bank
30.	11. 2005	Professor	Sociology in Jung-Ang University
31.	12. 2003	Lecturer	Labour studies in Korea University
32.	12. 2003 & 11. 2005	Head	KLSI
33.	12. 2003 & 11. 2005	Senior researcher	KLSI

34.	12. 2003 & 11. 2005	Senior researcher	KLSI
35.	12. 2003 & 11. 2005	Head	KCWC
36.	12. 2003 & 11. 2005	Senior researcher	KCWC
37.	11. 2005	Senior researcher	KLI

\*KLSI (Korea Labour and Society Institute)<sup>11</sup>,

KCWC (Korea Contingent Workers Centre)<sup>12</sup>, KLI (Korea Labour Institute)<sup>13</sup>

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<sup>11</sup> A leading private research institute specializing in labour & social issues and policy.

<sup>12</sup> A private research centre specializing in contingent workers issues.

<sup>13</sup> A public research institute specializing in labour issues and policy.

## **CHAPTER 3. INDUSTRIAL RELATIONS IN KOREA**

### **3.1. Introduction**

This thesis uses four strike cases from the Korean banking sector in order to look at the reasons for union victories and failures in such actions. In each case, the strike was organized as a response to Government-led restructuring of the sector (The demand for restructuring itself had originated as a condition of the IMF's bail-out following the national financial crisis of 1997). Before an analysis of the main issues of this thesis, it is necessary to provide a general background of Korean economy, politics, and industrial relations (IR) before and after the financial crisis. Therefore, this chapter looks at the cultural background of Korean IR, and changes in Korean IR before and after the 1997 crisis.

### **3.2. Korean economy and politics**

Korea, once one of the world's poorest nations, has undertaken economic development in earnest since 1962. An export-oriented economic development strategy contributed greatly to a radical economic transformation. As a result, Korea has enjoyed an annual average economic growth rate of 8.6 percent for the last three decades, becoming, by 1996, the world's 12<sup>th</sup> largest trading nation (OECD, 1998). By 2004, Korea had become the world's 11<sup>th</sup> biggest economy in term of gross domestic product (GDP), estimated at US\$667.4 billion (NSO, 2005). This overall achievement has been called the 'economic miracle on the Han River' in Seoul.

Korea has also become one of the world's leading manufacturers in the field of shipbuilding (major companies include Hyun Dai, Dae Woo, and Sam Sung), semiconductors and mobile phones, electronic home appliances (Sam Sung and LG), and automobiles (Hyun Dai, KIA, and Dae Woo). In 2004, the country's major export partners were China (19.6 per cent), USA (17 per cent), Japan (8.6 per cent), and Hong

Kong (7.1 per cent). Its major import partners were Japan (20.6 per cent), China (13 per cent), USA (12.9 per cent), and Saudi Arabia (5.3 per cent) (CIA, 2006).

There have been diverse views on the reasons for Korea's economic development: Success has been attributed to external factors, such as the infusion of US economic aid, the roles of foreign firms such as Japanese electronics manufacturers and beneficent foreign markets (Castley, 1997; Cathie, 1998), and internal factors such as the government (Amsden, 1989; Chibber, 2005), business management (Kim, 1997; Westphal, 1982), and well-educated people (Moore and Jennings, 1995). Certainly, external factors contributed to the economic development at the early stage. However, the most important factor has been the government's role. It was government initiatives<sup>14</sup> which created the conditions for the subsequent success. However, the parts played by Korea's own enterprises and low-wage, hardworking labour force should not be forgotten. The growth was also achieved at the expense of civil and labour rights, a result of the repression of political and industrial democracy (Kim and Bae, 2004: 5-7).

However, the national financial crisis at the end of 1997, part of a wider Asian foreign currency crisis, threatened the nation's remarkable economic achievements. With the support of an IMF rescue fund and a government-directed restructuring of the economy (particularly of the financial sector and big enterprises) Korea has once again been able to grow economically.

The IMF Executive Board, in December 1999, declared that the foreign exchange crisis in Korea was completely resolved (Korea.net, 1 June 2004). Korea's foreign currency reserves, which had totalled a mere US\$3.8 billion at the end of 1997 rose to US\$216.9 billion by the end of 2005 (The Economist, 4<sup>th</sup> – 10<sup>th</sup> March, 2006).

During the last five decades, Korean politics has also gone through many stormy periods. Korea was divided into South Korea (2005 population: 48.8 million) and North Korea (2005 population: 23.5 million) in 1945 when the nation recovered its sovereignty at the end of the Second World War. This split was the consequence of a compromise between the USA and the Soviet Union. It led to another war, the Korean War, which lasted for three years, from 1950 to 1953.

<sup>14</sup> The main contents are; 1. The pursuit of economic development plans led by the government (1963-1982). 2. Promotion (and alliance with) of Chaebol groups (conglomerates) in order to promote export-led industrialization and improve global competitiveness.

Since the establishment of the first republic government in 1948, Korean politics has experienced a dynamic history, including dictatorships (using anti-Communism and rapid economic development as their main justifications for taking power) and civilian revolutions (to install democracy). From 1948 to 1960, the country was led by a civilian dictator. However, he was overthrown by a peoples' revolution, the so-called "April Revolution", in 1960. The new democratic government was in power for only one year. In 1961, it was replaced in a military coup; the General who led the coup remained as leader of the country until 1979, when he was assassinated by one of his men. Other military generals took control of the government following another coup in 1980 after repressing a civilian democratic revolution, the so-called "May Revolution". They controlled the Korean government until 1993, when a democratic civilian government stepped in once again, the result of another civilian revolution, the "June Revolution" of 1987 (note: the country still had a military leader, albeit an elected one, in the intervening six years.) The revolution also led to a change in the Presidential Election system, from indirect to direct. Korean politics, since the Second World War, has thus been greatly dynamic and revolutionary. The revolutionary dynamics of Korean politics and economy has affected the character of its industrial relations.

### 3.3. Cultural background of Korean IR

Like many of its East Asian neighbours, Korea's religious and philosophical beliefs are rooted in Confucianism<sup>15</sup> and Buddhism. Buddhism was the national religion during the Shilla Dynasty (57 BCE–935 CE) and the Koryo Dynasty (918–1392), the ancient Korean states. After all the kingdoms in the Korea peninsular united under the Shilla Kingdom<sup>16</sup> Buddhism became the fundamental socio-political ideology for the reconciliation and the integration of people, regions, and social classes. Hence, the main

<sup>15</sup> Confucianism : Confucius (551–479 BCE) taught the necessary actions for harmony and order during a time of political violence and social disorder. During the Han dynasty (206 BCE–220 CE) his teachings (compiled by his disciples in the *Analects*) became state orthodoxy in China and remained so until 1911. Confucianism taught that nobility was not to be attained through inheritance but by following the correct rituals and acts of filial piety, reciprocity, and righteousness. In particular, juniors (such as subjects or sons) should show loyalty to seniors (rulers, fathers), while seniors should show benevolence to juniors. Confucianism's emphasis on harmony, respect for authority, loyalty, benevolence, meritocracy, literacy, and scholarship, lies behind the recent economic growth of Japan and the newly industrializing countries (NICs) of East Asia (Marshall, 1998).

<sup>16</sup> BakJe Kingdom (18 BCE–660 CE), KoGuLyo Kingdom (37 BCE–668 CE).

ideology of Korean Buddhism was the pursuit of compassion, harmony and unification. This emphasis on compassion, in conjunction with Confucianism, has had a long-term impact on Korean society, surfacing in such aspects of industrial relations as the paternalistic approach and work harmonization (Kim and Bae, 2004).

The disciplined methods and way of life of Buddhist monks especially influenced labour activists and politicians. For example, Korean labour activists very often shave their heads and conduct hunger strikes in order to demonstrate their determination to persist with their struggles. Some have occasionally used the extreme method of burning themselves to death when there has appeared no other way to achieve their demands. Between 1970, when a famous Korean labour activist, Jyun Tai-IL, did it, and 2000, 36 activists chose this form of protest<sup>17</sup>. These struggle methods are derived from the penance-ways of Buddhist monks. People who decide to become Buddhist monks must shave their hair as a sign that they are quitting their relationship with the world in order to put their hearts and souls into their discipline. In addition, monks have occasionally done hunger penance<sup>18</sup>, while others have burnt themselves to death in order to attain Nirvana (spiritual enlightenment) (Cho, 1992).

Confucianism, the state religion during the 500-plus years of the Chosun Dynasty (1392-1910), influenced not only the values and norms, ways of thinking, attitudes and conduct of Koreans, but also affected corporate culture and management systems and practices. Confucianism emphasizes five ethical codes governing human relations. These are: 1. filial piety to parents; 2. absolute loyalty of subjects to sovereigns; 3. obedience to one's husband and warmth towards one's wife; 4. precedence of the elder over the younger, and; 5. mutual trust among friends. These codes place an emphasis on harmony and social order (Kim and Bae, 2004: 40).

The Confucian traditions led, on the one hand, to hierarchical and unequal relationships between senior and junior members of society, between the upper and lower class, and between men and women. High priority was thus traditionally given to members of the upper class, more senior people, and men. Furthermore, this tradition influenced leadership style, which was authoritarian and hierarchical. On the other hand, the

<sup>17</sup> [www.yolsa.org](http://www.yolsa.org): the site of the Memory Group for Martyrs, people who died for democracy and their fellow citizens.

<sup>18</sup> Siddhartha (founder of Buddhism) did hunger penance during his life of extreme asceticism.

Confucian tradition also emphasizes the obligation of senior or upper class people to take care (courteously) of junior and lower class people. There is thus an emphasis on harmony in human relations.

These social values and norms influenced several social orientations, such as familism, Yongoism, and collectivism, that are deeply related to the culture of Korean industrial relations. First, Confucian beliefs emphasize the importance of one's family and clan. One important ritual is ancestor worship. The rite is usually held at the eldest son's house. This tradition has had an impact on Korean companies. There, familism resulted in family-based management and ownership on the one hand, and a paternalistic approach to the employment relationship on the other. Secondly, Confucianism created Yongoism. Yongo refers to connection. Yongo-based relations have pervaded almost every aspect of Korean society. Three of Yongo's different manifestations are Hyulyon (connection by blood), Hakyon (connection by education), and Jiyon (connection by geography). Yongo has been applied to such actions as promotion within a company, recruitment, and the selection of partners for strategic alliances. Yongoism can be positively interpreted as the exercise of social capital. On the other hand, it hampers the process of enhancing trust and transparency, resulting in inefficiency, corruption and selfishness. It also facilitates the practice of taking care of people who have connections rather than competencies (Ibid: 41-4). Thirdly, Confucianism generated collectivism. Collectivism in Korea can be characterized by in-group harmony and the hierarchical principle (Cho and Yoon, 2001). These features generate both in-group solidarity and unity and some tension and competitive relationships with out-groups as well as endorsing a paternalistic management style. Therefore, employers take responsibility for their employees, while employees, in turn, have a strong loyalty and commitment to the firm. Life-time employment and seniority-based practices are also related to this (Kim and Bae, 2004).

The social values of the traditional hierarchical family system have influenced Korean companies, making them strongly hierarchical, with virtual organization principles. In addition, a similar level of importance has been assigned to the authority and paternalism of owner-managers. Among peers at work, trustworthy relations, collectivism, a strong sense of duty and harmony are highly valued. People usually work hard and are devoted to the company.

In short, the traditional Confucian social values governing human relations are directly responsible for some features of Korean HRM systems and practices, such as seniority-based systems, the paternalistic approach, long-term attachments, tenure-based promotions and job grade by cohort. Under the influence of traditional social values, Korean employment relationship has been characterized by a strong sense of solidarity and a unitary view of industrial relations. However, this strong sense of solidarity and unitarianism paradoxically contributed to the promotion of militant unionism (which was based on strong solidarity) during the great labour disputes of 1987 as workers protested against the repression of pluralism.

### **3.4. Korean trade unionism**

Since 1987, the character of Korea trade unionism (“although rhetorically committed to socialist aims” has developed as a kind of ‘militant economism’ within a system of enterprise unionism (Hyman, 2001: 68). That is, Korean unions have typically adopted a character of militant economism to gain their demands (such as wage increases and improvements of working conditions) through the use of ‘industrial muscle’ (by applying such militant methods as strikes or collective power) (Bae and Cho, 2003: 92-3). This particular form of trade unionism stemmed from the government’s regimental labour policy in the period of development dictatorship (from 1962 to 1993) and the traditional enterprise union system.

The root of the militancy of Korean unions lies in the militant independence movement against colonization in the early 1900s (1910-1945), the militant left-wing labour movement after independence (1945 to 1950), and the fierce struggle for democracy against dictatorship, between 1955 and 1987 (Ibid, 2003: 93). In addition, since 1970, when the labour activist, Jyun Tai-IL, burnt himself to death in his demand for respect for labour law, many intellectuals and university students have pursued social reform by going into workplaces to promote the labour movement. Activists had frequently no choice but to rely on militant methods to fight against the repressive employment systems (Lee, 2005: 245).

However, there were few labour disputes before 1987 because successive authoritarian governments suppressed the democratic and militant labour movement. Furthermore,

the national centre of trade unions, FKTU, was a moderate body, frequently cooperating with the government (from whom it received much of its funding and other material support such as its buildings) and employers to discourage union militancy.

It was against this background that, in July 1987, explosive labour disputes, known collectively as the Great Labour Struggle, occurred (discussed in Section 3.5.2), a month after the door of political democratization was opened as a result of the June Revolution (see Section 3.2). These disputes resulted in a change of labour policy by the government, from a repressive one to autonomic industrial relations between labour and employers. Nevertheless, employers still preferred the authoritarian employment relationship. Unions were sometimes forced to adopt a peculiar strategy, striking before they engaged in negotiations with employers; this strategy was known therefore as “Strike First and Negotiation Later”<sup>19</sup>.

The number of strikes decreased sharply in the early 1990s (Table 3-5) because the Government and employers pursued a unitarian policy of IR for economic development, a combination of carrots (wage increases and improvements of working conditions) and sticks (strong crackdowns on illegal labour disputes). Then, in January 1997, the militancy of the unions was once again ignited. They demonstrated their political power when the Government unilaterally tried to legalize labour laws concerning flexibility. Unions went on a general strike to repel the laws, forcing the Government to revise them (Lee, 2003: 34). Unions’ confidence in the efficacy of strikes was thus increased, prompting more labour disputes when mass restructuring was introduced in response to the national financial crisis which occurred at the end of that year (Table 3-5).

In addition, unions established since 1987 have tended to prefer militancy. They succeeded in establishing an autonomous national centre of trade unions, KCTU, in 1995 although the Government did not grant it legal status until 1998. They have also increased their interest in social issues, such as labour law revision, and aligned their standards, education, and pensions with those which exist internationally. They also established, with farmers, students and liberal groups, a socialist party, the Democratic Labour Party, in 2000. In the 2004 general election, the party received 13.1 percent of

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<sup>19</sup> In addition, union leaders have been conditioned through fights, imprisonment, and dismissals since 1987. The rank-and-file have also shown a tendency to prefer militant candidates to moderate ones at leadership elections (Bae and Cho, 2003: 117).

the national vote, and ten of their MPs were elected to Parliament (there are 299 members in all) (kdlp.org). Thus, they became the third party, ensuring that KCTU is now an organization with political power. Furthermore, it became the number one national centre of trade unions in April 2006, when its membership reached 800,000, 20,000 more than the moderate FKTU (Seoul Economy Daily, 20 April 2006).

Other characteristics of Korean trade unions are, first, the single enterprise union system (only one union can operate in any one enterprise). However, as a result of a revision of the labour law in 1997, it will become legal in 2010 for more than one union to operate in enterprises. As it concentrates labour power into one group, this single union system is effective if it is allowed to operate autonomously and democratically; however, if the union is operated undemocratically by a small number of leaders controlled by management it can provide less assistance to employees. The single enterprise union system has decayed slowly since 1997, to be replaced by a new movement towards industrial unionism (see Section 3.6.3). Secondly, the number of full-time union officers in Korea is greater than in other countries. On average, there is one full-time officer to every 174 members in Korea unions in 2003 according to a survey by KTC (Cho, 2004). This is quite a high ratio compared to other countries. The reason for this is that union power at collective bargaining has increased since 1987, the time of the “Great Labour Struggle”. Almost full-time officers (except the small number of officers employed by the unions) are employees in their companies and their companies pay them according to the CBA (Section 4.6.2.1). Lastly, the labour movement has been led by militant big enterprise unions (in Hyun Dai Group, Dae Woo Group, and the public sector) established since 1987. They have engaged in labour disputes almost every year.

### **3.5. Korean IR before the national financial crisis in 1997**

Previously authoritarian industrial relations in Korea had experienced dynamic transformation under new environmental conditions, such as democratization in 1987, globalization in the 1990s, and the national financial crisis in 1997.

### **3.5.1. Authoritarian IR under the military government before 1987**

Before 1987, Korean industrial relations were authoritarian in nature, dictated by the military government that had been in power since the early 1960s. The government that took power in a *coup d'etat* in 1961 actively mobilized national resources for a designated purpose, industrialization, and transformed Korea into a strong authoritarian developmental state in the process (Amsden.1990: 24-5). Under successive military governments for 30 years, Korean society was effectively militarized. Firms tend to imitate the regime in terms of hierarchical structure, centralized decision-making, and autocratic management coordination (Janelli. 1993: 48-9). During this period, the government's interventionist labour policy tightly controlled collective actions, such as the organization of trade unions or strike actions, by employees. At the corporate level however, employers were free to exercise their managerial prerogatives when determining wages and working rules. Until 1987, since labour unions were too weak to voice their members' discontent and demands, industrial relations was, by and large, stable and static, dominated by the unchallenged authority of the government and employers (Lee, 2001). In summary, forced unitarism was a characteristic of Korean industrial relations.

### **3.5.2. From authoritarianism to autonomic IR after 1987**

Since 1987, Korean industrial relations have been transformed from authoritarian to democratic. In June 1987, the growing power of the civil movement pressured the military ruling group to make the "Declaration of Democratization"<sup>20</sup>; this was a critical moment, adding momentum to the move towards political democratization. The "Great Labour Struggle" that closely followed dismantled the existing regimented industrial relations system dominated by management and the authoritarian government, and gave rise to a new autonomic environment.

This phase began with the dramatic surge in labour disputes. The number rocketed from 276 in 1986 to 3,749 in 1987, 1,873 in 1988, and 1,616 in 1989. Along with the sharp rise in labour disputes, the number of trade unions increased from 2,742 in 1986 to 7,883 in 1989 (Table 3-5). In the same period, union membership nearly doubled from

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<sup>20</sup> This was a result of the June Revolution by people.

1,050,000 to 1,931,000, and union density increased from 11.7 percent to 18.6 percent (KLI. 2001a, 2001b).

Faced with the offensive by organized labour as well as social democratization, the Government abandoned its interventionist industrial relations policy and officially recognized the autonomy of labour unions and management in dealing with firm-level labour issues through collective bargaining. The explosive growth of the labour movement in this period also transformed the power balance between labour and management. Authoritarian control by management eroded substantially, and labour unions in many large firms took control of the shop floor. Management was forced under strong pressure by labour unions to allow high wage increases, improved working conditions and corporate welfare programs.

### **3.5.3. Traditional characteristics of Korean IR**

Some of the characteristics of industrial relations before 1997 include, first, enterprise union system had become an entrenched arrangement for collective bargaining. The enterprise-based unions were characterized by fragmentation, uncoordinated actions and a weak confederate structure, a tendency to focus on distributive issues and were not well prepared to deal with production issues following industrial adjustment (Wilkinson, 1994: 354-5). Secondly, firms had developed organization-based employment systems in order to retain and increase skilled labour during rapid industrialization. Corporate employment systems were created on the basis of lifetime employment, seniority-based pay system, and corporate welfare benefits. Thirdly, an authoritarian, paternalist management style was developed at the firm level. This management style was nurtured by the traditional Confucianism culture and the militarization of the society. However, the latter literally began to be revised after 1987 and the traditional Korean industrial relations systems (based on Confucianism) underwent significant change after the financial crisis of 1997.

## **3.6. Changes of Korean IR after the financial crisis**

The pressure to improve national economic competitiveness in the global economy had been mounting since the early 1990s; this pressure increased with the 1997 national

financial crisis. The impact on Korean industrial relations was profound, with a strong emphasis on labour flexibility and performance-based practices.

Following the crisis, the Korean Government applied to the IMF for a bailout. The IMF provided a comprehensive financial package of about \$65 billion. In return, the Korean Government was asked to contain inflationary pressure through tight monetary and fiscal policies, and to fundamentally restructure the banking and financial sector. More importantly, the IMF stressed that, in its view, the Korean labour market was too rigid and that the Government should take the necessary steps to improve its flexibility.

The Government and employers perceived that the financial crisis presented an opportunity to eliminate redundant aspects of the labour force. Consequently, the two groups actively pursued such restructuring programs as downsizing and merger and acquisitions despite strong resistance from trade unions and the labour force.

### **3.6.1. The impact on the labour market**

The restructuring impacted seriously on the Korean labour market. First of all, the unemployment rate in Korea rose sharply, from 3.1 percent in December 1997 to 8.6 percent in February 1999; the actual number unemployed by February 1999 had reached about 1.3 million (Table 3-1). Secondly, since downsizing had been implemented in almost all sectors of the Korean economy, the main focus of collective bargaining shifted from wage increases to the need to improve employment security. Consequently, concession bargaining was widespread during the financial crisis in order to secure employment guarantee agreements with employers, while wage levels for most workers fell (the growth rate of real wages was -9.3 percent in 1998) (Table 3-2). Thirdly, the use of contingent labour (i.e. irregular workers) became widespread. The ratio of contingent workers to the total employed population increased from 46 percent in 1997 to 53 percent in 2000 (Table 3-3). Contingent workers usually took the jobs of regular, full-time workers, and assumed the same level of responsibility. However, their wage level was two-thirds or a half of regular workers.

### **3.6.2. Change of employment practices**

Traditional Korean employment practices cultivated employee loyalty and commitment through long-term employment and seniority-based pay. As economic competition intensified throughout the 1990s, these rigid practices were challenged by the need for more flexible use of human resources. American-style employment practices focusing on relatively short-term, performance-based and market-oriented methods of managing human resources began to spread, and the legacy of lifetime employment was greatly weakened in most private companies.

First, the seniority wage was traditionally combined with a group bonus system. Thus, the bonus was not performance-based, but a regular component of the total wage. However, the trend in bonus payouts declined during the financial crisis and performance-based bonus was introduced in almost all firms. In addition, Korean employment practices regarding recruitment, appraisal, and training became increasingly Americanized. For example, 360-degree appraisal was introduced in many firms, reducing reliance on the traditional top-down appraisal; recruitment decisions began to be decentralized, giving line managers more decision-making authority; the selection process placed more importance on interviews than traditional paper-and-pencil tests, and; training and education programs began to focus more on technical knowledge and skills than on loyalty and commitment to the company.

### **3.6.3. The impact on trade unionism and collective bargaining**

Due to the restructuring, labour organizations experienced substantial setbacks during the early period of the crisis. Unions lost about 50,000, or 3 percent, of their members during the first nine months of the emergency (Kim, Bae and Lee, 2000). The sudden decline was mainly due to employment restructuring and the bankruptcy of firms. The response of labour to downsizing was to oppose any restructuring programs by mobilizing union members and calling for a series of general strikes. Although the financial crisis initially appeared to be detrimental to the labour movement, it seems to have made trade unionism more active and dynamic in the long run. The trend was evident in the following three developments.

First, the financial crisis actually reversed the declining trend of union membership partially due to grassroots organizing among employees in small- and medium-size firms. Consequently, the number of unionized workers increased by 116,000 between 1998 and 2000 (Table 3-4). Secondly, strike activity increased noticeably, rising from 78 in 1997 to 250 in 2000. The number of workers involved in strikes increased from 43,991 to 177,969 and the number of working days lost increased from 444,720 to 1,893,563 during the same period (Table 3-5). As to the reason for strike action, almost four-fifths (196 out of 250) of the total in 2000 centred on issues of employment and working conditions; the remainder focused on wage issues. This clearly indicates that employment-related issues arising from restructuring led to most of the disputes. Finally, the movement to transform traditional enterprise unions to industrial unions was revitalized after the financial crisis. The massive layoffs led union leaders to realize the inherent limitations of enterprise-based unionism. Enterprise-based unions could not respond effectively to industrial and national-level employment issues, such as industrial-level restructuring plans forced by the Government. The formation of the KFIU was a direct response to the financial industry restructuring which led to layoffs of approximately 40 percent of employees in the sector (Table 5-10). The most important goal of industrial union establishment was to protect the job security of employees against an imminent second round of restructuring. Employees in the banking sector believed that a single, large-scale industrial union would be more effective than scattered enterprise unions in preventing restructuring programs by the Government and employers.

The transformation from enterprise unionism to industrial unionism was decisive and swift. In the four-year period between 1998 and 2002, 17 new industrial unions were formed. Most of these were formed by merging existing individual enterprise unions. The combined membership of these industrial unions reached 31.4 percent of the total union membership in Korea in 2002; in 1997 it had accounted for just 6.2 percent (Table 3-6). However, industry-level bargaining has so far only been conducted in a handful of sectors, such as banking, education, and hospitals mainly due to the refusal of employers in other sectors to participate.

### **3.6.4. Experiment of corporatism**

The Korean financial crisis in November 1997 resulted in a crisis consciousness among the three parties, labour, Government, and employers, leading them to form the Korea Tripartite Commission. The establishment of the KTC stemmed from the Government's need to implement restructuring as smoothly as possible. In the past, the Korean Government had considered labour to be an obstacle to economic development and had tried to subordinate official labour unions to the state and to suppress any independent labour movement. Thus, the creation of the KTC implied that the Government at least now regarded labour as a legitimate actor in the political structure. On 20 January 1999, the first Tripartite Joint Statement was announced; it identified the shared goal of economic reform and the principle of fair sharing of burdens. Then, on 9 February 1998, the three parties agreed on 90 major items and declared its Social Compact to the public. In return for accepting the immediate implementation of layoffs of redundant staff, the labour movement saw some basic labour rights made law.

Among the 90 agreed-upon items, the most important included: 1. to allow immediate implementation of layoffs of redundant staff. However, the laying off of staff should be the final resort in all subsequent business problems; layoffs should be carried out only in the case of business crisis; fair criteria should be applied to select the workers to be laid off; advance notice should be given to affected employees; 2. to improve income security programs for the unemployed; 3. to provide government employees with the right to organize; 4. to guarantee teachers the right to organize trade unions from July 1999; 5. to guarantee political activities of trade unions by revising the Elections Act and the Political Funds Act during the first half of 1998; 6. to recognize unemployed workers' right to join trade unions organized on the trans-enterprise level from 1999 (Kim and Bae, 2004).

Kim and Bae (2004) argue that the Social Compact greatly improved the credibility of the Korean economy, highlighted the Government's crisis management capacity, and helped the country overcome the credit crunch. However, the Commission has not functioned effectively since February 1999 because union national centres (KFTU and FKTU) and the Korean Employers Federation have repeatedly withdrawn from and rejoined it. Nevertheless, the Commission has played an important role the resolution of major disputes between unions and Government. For example, the Tripartite

Commission played a role as a mediator between the KFIU and the Government whenever strikes in the financial sector occurred in 1998, 2000, and 2003.

### **3.7. History of bank unions in the Korean labour movement**

The history of Korean bank unions is less than 50 years old. The first union, Cho Hung Bank trade union, was established on 1 June 1960. Although the history of the Korean trade union movement goes back as far as 1898, when a port workers' union was established in Sung Jin, the trade union movement had confined itself to the manufacturing industry until 1960 when a civilian revolution (the so-called 4.19 revolution or April Revolution) overthrew a dictatorial government run by the police.

The reasons for such a restricted union movement were, first, the Government's fear of the organization of highly educated workers such as teachers, reporters, and bank workers, and, secondly, a public misconception that the labour movement was just for manual workers.

Further motivation for the Government's suppression of trade unions emerged from the Korean War (between communist North Korea and capitalist South Korea) fought between 1950 and 1953. After the war ended, the South Korean government pursued a stronger anti-communism policy. This included opposition to the trade union movement by the police who were concerned by the revolutionary agenda of the left-wing union leaders who had led the movement prior to the war.

However, following the 4.19 revolution and the establishment of a democratic government the trade union movement was revitalized. Knowledge workers, such as teachers, journalists, and bank workers, could now organize trade unions. The Commercial Bank Union, the Korea First Bank Union, the Han IL Bank Union and the Seoul Bank Union were all established within weeks of the setting up of the Cho Hung Bank Union. In order to strengthen their collective power, the unions formed the Korean National Association of Bank Unions very soon after (23 July 1960). Collective bargaining agreements between unions and banks (which formed the basis of stable industrial relations in the Korean financial sector) were signed shortly afterwards.

However, a military coup in 1961 led to a government crackdown on the growing trade union movement, and teacher and press unions were disbanded. However, the bank unions were able to survive in the cold wave of suppression, and continue to grow because they renounced political campaigns and focused on only the improvement of workers' rights and interests (Kim, 1982). Under labour legislation introduced by the military government there was a change from the enterprise union system to an industrial union system. The Government believed that control of the workers would be easier under the latter. An industrial union system remained in place until 1980, when, under a new military government strongly opposed to a citizens' democracy movement, new labour legislation was passed, resulting in reversion to the enterprise union system. The industrial union system had had a positive aspect in that the unions were able to represent all employees in the banking industry. A collective bargaining agreement negotiated by the unions applied a uniform wage system and working conditions on all bank employees.

Although bank unions had to once again operate under an enterprise union system retail banks maintained multi-employers' bargaining as it was convenient for both unions and employers; both groups were used to the system and they could avoid unnecessary competition of wages and working conditions between banks. However, it was not a compulsory form of collective bargaining but an optional one. Accordingly, when employers did not agree on trade unions' requests unions could not take any legal action against them. Each union was thus forced to engage in single employer bargaining again in order to attain its objects. Newly established retail banks favoured enterprise-based bargaining and tried to differentiate their wage and working conditions from the bigger, more established retail banks. Wage and working conditions were generally better in these new banks than in the older banks.

In 1997, at the time of the Asian financial crisis, many bankrupt banks were closed and a huge number of employees had to be dismissed, in accordance with the Government's forced order of structural adjustment. Bank unions, being enterprise unions, could not protect employees effectively. They began to promote the establishment of an industrial union in order to cope with the second structural adjustment proposed by the Government, the purpose of which was to merge banks so as to strengthen the competitiveness of Korea's banks. An industrial union, the KFIU, was established in March 2000. Since then, it has effected major changes to industrial relations in the

banking sector. For instance, the union has organized major industrial actions in order to resist the second structural adjustment by the Government, and has instigated multi-employer bargaining in which all banks participate.

### **3.8. Conclusion**

This chapter looked at the cultural background of Korean IR with a snapshot of the economic and political landscape, and changes in Korean IR before and after the financial crisis. The findings can be summarized as follows.

First, Korean industrial relations culture is rooted in Confucianism and Buddhism. The main ideology of Korean Buddhism was the pursuit of compassion, harmony and unification. This emphasis on compassion, taken along with Confucianism, has had a long-term impact on Korean society, surfacing in such aspects of industrial relations as the paternalistic approach and work harmonization. The disciplined methods and way of life of Buddhist monks especially influenced the struggle methods of labour activists; examples are hair shavings and hunger strikes. Confucianism influenced not only the values and norms, ways of thinking, attitudes and conduct of Koreans, but also affected corporate culture, management systems, and employment practices, such as seniority-based systems, the paternalistic approach, long-term attachments, tenure-based promotions and job grade by cohort. Due to the influence of traditional social values, the culture of Korean industrial relations has been characterized by a strong sense of solidarity and a unitary view of industrial relations. However, these characteristics also contributed to the promotion of militant unionism, which was based on that solidarity, in the great labour disputes of 1987 against the repression of pluralism.

Secondly, since 1987, the character of Korean IR has changed from one of authoritarianism to one based on democratic principles. Korea's industrial relations reflected the authoritarianism of the military government that had implemented economic growth policies since the early 1960s. During that period, the Government's interventionist labour policy tightly controlled labour's collective actions, such as the organization of trade unions or the taking of strike action. Therefore, forced unitarism was a characteristic of Korean industrial relations. However, due to political democratization in 1987, Korean industrial relations were likewise transformed from

authoritarian to democratic. The so-called "Great Labour Struggle" dismantled the existing industrial relations system previously dominated by management and the authoritarian government (section 3.5.2). As a result, authoritarian control by management was eroded substantially, and labour unions in many large firms took control of the shop floor. In particular, management was forced under strong pressure by labour unions to allow high wage increases and improve working conditions and corporate welfare programmes.

Thirdly, since the national financial crisis in 1997, Korea's traditional employment systems, based on life-long employment and seniority-based pay, have rapidly changed toward American-style ones based on employment flexibility and performance-based pay. As a consequence of extensive restructuring following the financial crisis, the unemployment rate in Korea increased sharply. As a result, strike activities also rose (Table 3-5). In addition, the movement to transform the traditional enterprise unions to industrial unions was accelerated as employees sought to respond to restructuring by employers and the Government. As a result, 17 new industrial unions were formed between 1998 and 2002 (Table 3-6).

Fourthly, the Government began to experiment with corporatism of labour policy by establishing the Korea Tripartite Commission (KTC). The financial crisis had resulted in a crisis consciousness among the three parties (labour, government, employers), leading them to form the Commission. On 9 February 1998, the three parties agreed on 90 major items and announced its Social Compact to the public. The unions, by accepting the immediate implementation of layoffs of redundant employees, were rewarded with the legalization of basic labour rights. The Social Compact greatly improved the credibility of the Korean economy, highlighted the Government's crisis management capacity, and helped the country overcome the credit crunch (Kim and Bae, 2004).

Lastly, bank unions established since 1960 had generally maintained moderate IR with employers. However, since 1997, when the Government embarked on a massive restructuring, involving the closure of insolvent banks and personnel reduction, of the banking sector, the unions have had no alternative but to change their approach to industrial relations from moderation to militancy. A traditionally quiet workforce, facing serious employment insecurity, has therefore shed its image of moderation. To

increase the effectiveness of their response to the restructuring, the unions also changed their union form from enterprise unions to an industrial union, the KFIU, and organized a number of strikes.

As we have seen, due to the national financial crisis, the Government began to systematically restructure the financial sector. This led to mass redundancies and, in response, bank unions went on four strikes between 1998 and 2003. The following chapters will explore in detail the proposed restructuring, changes in industrial relations, and each of the strikes.

**<Table 3-1> Unemployment rates around the period of the financial crisis  
(by percentage)**

Month	1997	1998	1999	2000
February	3.2	5.9	8.6	5.3
December	3.1	7.9	4.8	4.1

Source: National Statistical Office (2001)

**<Table 3-2> Changes in real wages (by percentage)**

	1996	1997	1998	1999	2000
Ratio of wage increase	6.6	2.5	-9.3	11.1	5.6

Source: Korea Labour Institute (2002), KLI Labour Statistics.

**<Table 3-3> Ratio of irregular workers (1,000)**

	1996	1997	1998	1999	2000
1.No of regular workers	7,401	7,151	6,457	6,050	6,212
2.No of temporary workers	3,860	4,182	3,998	4,183	4,545
3.No of daily workers	1,804	1,892	1,735	2,289	2,373
4.No of irregular workers (2+3)	5,664 (43 %)	6,074 (46 %)	5,733 (47 %)	6,472 (52 %)	6,918 (53 %)
5. Total (1+4)	13,065	13,226	12,191	12,522	13,086

Source: National Statistical Office, 2001.

**<Table 3-4> Number of union members in Korea**

	1996	1997	1998	1999	2000	2002
No of union members	1,599,000	1,484,000	1,401,000	1,480,000	1,527,000	1,605,972

Source: Ministry of Labour (1997-2004)

**<Table 3-5> Statistics on labour disputes in Korea**

	1986	1987	1988	1989	1990	1993
No of strikes	276	3,749	1,873	1,616	322	144
No of workers involved in	47,000	1,262,000	293,000	409,000	134,000	109,000
No of working days lost	72,000	6,947,000	5,401,000	6,351,000	4,487,000	1,308,000

	1996	1997	1998	1999	2000	2002
No. of strikes	85	78	129	198	250	322
No. of workers involved in	79,000	43,991	146,000	92,000	177,969	93,000
No. of working days lost	892,000	444,720	1,452,000	1,366,000	1,893,563	1,580,000

Source: Ministry of Labour (1986-2004): White Paper on Labour

**<Table 3-6> Statistics on industrial unions**

	1997	2002
No. of industrial unions	7	34
No. of members of the industrial unions	92,525	503,486
Ratio of total union members	6.2%	31.4%

Source: Ministry of Labour (1997-2004): White Paper on Labour

**<Table 3-7> History of changes of union form in the Korean banking sector**

	1960	1961	1980	2000
Union Form	Enterprise Union	Industrial Union	Enterprise Union	Industrial Union

Source: 40 Years History of KFIU (KFIU, 2001).

# **CHAPTER 4. FINANCIAL CRISIS, RESTRUCTURING, AND CHANGES IN INDUSTRIAL RELATIONS IN THE KOREAN BANKING INDUSTRY**

## **4.1. Introduction**

By 1996, Korea had become the 11<sup>th</sup> biggest economy and the 12<sup>th</sup> largest trading country in the world. On becoming a member of the OECD (Organization for Economic Cooperation and Development), an organization of the world's most advanced countries, Korea received public recognition for its economic achievement.

However, in 1997, the very year it joined the OECD, Korea was declared bankrupt, a victim of the Asian foreign currency crisis. The Korean case is an example of the 'Icarus Paradox'<sup>21</sup> (Jung, BG and Han, CS., 1990). Although there were several hypotheses regarding the reasons for the Korean financial crisis, many economists agreed that the root causes were Korea's internal economic structural problems and the impact of the Asian foreign currency crisis (Section 4.3.1). Booz-Allen & Hamilton's report (1997) argued that the Korean economy had become a nut cracked between the China of cheap labour and the advanced countries of high technologies. The McKinsey Report (1998) noted that the productivity of Korean industry was just 51 percent of that of America. The International Monetary Fund (IMF) wrote, in agreeing to a rescue fund, that the crisis in Korea derived from fundamental defects in both the financial sector and the country's enterprises (IMF, 1997).

As a consequence, the Government resolved to restructure the financial sector and enterprises in order to solve the economy's structural problems. The result of this was

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<sup>21</sup> The Icarus Paradox refers to cases where a people or an organization, after experiencing extreme and rapid growth, fails because of their or its over-confidence. Icarus, a character in Greek mythology, was the son of Daedalus, architect of the labyrinth for Minos of Crete. Daedalus made wings of feathers and wax in order to escape to the mainland, and was successful. Icarus, however, flew too near the sun, which melted his wings, and he fell into the sea and drowned (Shin and Han, 1995: 22).

overall changes in employment and industrial relationships in all Korean enterprises. The financial sector, especially, had to undergo extensive restructuring under new government plans because the Government had diagnosed that a main reason for the financial crisis had been the inflexibility of the industry and the sheer wrong-headedness of some of its business practices.

The support of an IMF rescue fund was conditional upon the restructuring of financial institutions (i.e. restoring their soundness as businesses) and the introduction into the industry of greater labour flexibility. Therefore, first, many bankrupt financial institutions were closed and merged. Secondly, work reorganization was undertaken in all financial institutions. Thirdly, mass redundancy of regular employees occurred and the number of irregular employees increased rapidly. Fourthly, human resource management in the financial sector was radically changed as management strategy was transferred from the pursuit of quantity (i.e. market share) to the pursuit of quality based on profitability. In other words, financial institutions were restructured, using the twin strategies of cost saving and labour flexibility in order to propel performance. Fifthly, due to the pursuit of a labour flexibility strategy which included endless redundancy, the previous moderate industrial relationship was transformed into an increasingly militant one, with many disputes breaking out as unions sought to protect employees against the strategy.

The following chapter takes a detailed look at changes in the employment and industrial relationships in the banking sector since the 1997 financial crisis, the crisis itself, and the restructuring it precipitated.

## **4.2. Globalization and the Korean financial sector**

### **4.2.1. Globalization factors in the financial industry**

The financial industry has been globalized since the late 1960s. Three factors have driven this. These are 1) the increasing advance of Western capital beyond the West, 2) new technologies, and 3) deregulation. These factors tend to make financial institutions in different countries do business in similar ways. They have however been structured and mediated by national institutions, tending to give birth to nation-specific sectoral

governance regimes. The arrangement between the three forces of globalization and each national system provides a background against which convergence versus divergence occurs.

Let us look at the three factors in more detail. First, the activities of multinational companies and the international advance of financial institutions have increased markedly since the late 1960s. Of especial significance was the first oil crisis in the 1970s. This prompted Western banks, which held a huge amount of oil capital, to invest in developing countries in Asia and South America in order to make more profits. In the 1990s, even the financial institutions in the developing countries had tended to follow the way of the Western banks. For example, Korean financial institutions invested huge funds in the capital markets of South Asia and Russia, the so-called emerging markets, without enough knowledge or experience about the rules of the game of global financial markets. However, global financial integration has caused a lot of problems. It has given a one-sided victory to Western investors, who know the rules of the game better, instead of efficiently distributing the world's financial resources.

Furthermore, global capital tends to move as a 'block', looking for profits. Thus, capital is invested in countries where there is a profitable prospect. The reverse is also true, with capital being withdrawn when prospects are gloomy. Therefore, countries that borrowed capital can suddenly fall into financial crisis; this is what happened to the Asian countries in 1997 (Son and Jung, 2001:31).

Secondly, due to the development of new technologies such as computers and dedicated software packages, financial skills have developed rapidly. Computerization has made it possible for financial institutions to operate (i.e. move capital more speedily around the world market) for 24 hours a day. The new technologies have enabled banks to make savings on working hours and operation costs, and to consolidate their operations by automating, rationalizing, and computerizing work processes. As a result, the new technologies have become an important factor in producing changes of work organization, employment security, and human resource management. The role of new technologies therefore has been a strong force of convergence across countries in the banking industry's work methods and work processes (Cho, 2000a:17).

Thirdly, the deregulation of the financial industry has progressed across countries since the early 1980s when the economic system, neo-liberalism, with its emphasis on deregulation, emerged. As a consequence, the opening-up of markets and privatization in the banking sector became irrevocable global trends during the 1980s and 1990s. These ignited great market competition in domestic and overseas markets. Deregulation has been a massive influence on the restructuring of the financial sector in most countries. The deregulation of employment relations relates to the weakening of, or removal of, employment rules from the market, in order to give maximum scope to the forces of supply and demand in the setting of wages and the determining of levels of employment. It is a policy advocated by free-market economists and neo-liberalists, and is based on a conviction that regulation of the labour market promotes inefficiency and generates perverse effects (Lee and Kim, 2001: 88) (Table 4-1).

Yun (2001) argues that a leading actor who hastened the process of financial globalization through deregulation was the American Government. As America's competitiveness decreased because of faster economic growth in Japan and Europe, the American Government adopted the strategy of further opening-up of the financial industry (i.e. that industry in which America was most competitive). The UK Government, traditionally a leading financial country, supported the American strategy. These strategies were a key part of what came to be known as Reaganism and Thatcherism. Moreover, financial globalization deepened the globalization of all levels of the international economy. One effect was that welfare policies around the world were vitiated because the free flow of capital weakened the autonomy of national economies, making it difficult for countries to pursue effective welfare policies (Yun, 2001).

#### **4.2.2. Deregulation in the Korean banking sector**

The Korean Government has supported financial liberalization and an open-door policy in the financial market since the early 1980s. It was these policy decisions which made it necessary for the Korean financial market to become more efficient, and for Korean financial institutions to become more competitive in order that the country is able to survive (economically) in the era of financial globalization. There was also pressure placed on the Government from developed countries, such as the USA and the Western European countries, to open the financial market. It was in the interest of the developed

countries to do so; enlarging their overseas market was good business for them, especially as the developing countries lacked the knowledge or the experience to reap the majority of the benefits. The developed countries were thus able to strengthen their control of the global economy.

The Korean Government pursued a policy of deregulation of the financial sector in order to progress financial liberalization in preference to the development policy it had supported in the past. In addition, the Government was motivated to promote efficiency and competitiveness as the financial industry entered a new era of international competition. First, it supported the privatization of retail banks in order to promote their (the banks') autonomous management. Several banks, such as Han IL Bank (1981), Seoul Bank (1982), Jae IL Bank (1982), and Cho Hung Bank (1983), were privatized.

Secondly, the Government permitted the establishment of banks with foreign investors as partners as part of an open-door policy. As a result, Shin Han Bank (1982) entered into partnership with Japanese investors and Han Mi Bank (1983) joined with American investors.

Thirdly, the Government permitted new entrants into the banking sector in order to promote competition. New banks, such as Dong Hya Bank (1989), Dong Nam Bank (1989), Dea Dong Bank (1989), Ha Na Bank and Bo Ram Bank (1991), and Pyung Hya Bank (1992) were therefore established; the number of retail banks increased from 15 in 1980 to 26 in 1997.

Fourthly, the Government relaxed restrictions on the trade of foreign capital and foreign currency, and permitted both foreign investment in the stock market and overseas investment by national financial institutions in order to promote international trade of capital and currency. However, this relaxation of restrictions exacerbated the 1997 financial crisis; simultaneously, much foreign capital was withdrawn and domestic financial institutions made big losses on their overseas investments.

Fifthly, many governmental restrictions on financial institutions were removed (or relaxed) in order to reduce the Government's involvement in the industry.

Sixthly, the Government allowed banks to increase capital and the number of branches in order to strengthen the competitiveness, and the enlargement, of financial institutions.

Lastly, the Government introduced legislation which facilitated reform (largely via extensive restructuring of the financial industry) at the time of the 1997 financial crisis; this was a necessary condition of its application to the IMF for rescue funds (Son, 2001) (Table 4-2). As a result, many bankrupt banks were closed and merged, and large numbers of employees were made redundant (Table 4-10).

However, financial liberalization led to a number of problems, often because financial institutions, accustomed to governmental control, simply possessed neither the knowledge nor the experience to survive and prosper in an open market. Many still expected government support and intervention. For example, despite the rapid increase in the number of enterprises being made insolvent in early 1997, banks were reluctant to act because they still believed that the Government would, as they had in the past, solve their problems. In addition, the inefficiency of the supervision of the industry remained although financial risks increased as financial liberalization, due to globalization, progressed. The Korean financial industry was thus very vulnerable to external shocks; the possibility of a financial crisis in Korea might have been foreseen (Lee and Kim, 2001: 87-140).

### **4.3. Financial crisis and restructuring**

#### **4.3.1. Reasons for the financial crisis**

There are several theories regarding the reasons for the financial crisis in Korea. First, proponents of the impact theory argue that it occurred as a result of the rapid redemption of foreign currency loans following the Southeast Asian foreign currency crisis (Park, 1998: 46). Secondly, supporters of the policies failure theory argue that it was due to the Government's mismanagement of foreign exchange policy, financial liberalization, and financial supervision (Park and Choi, 1998: 3). Thirdly, those who favour the structural problem theory argue that long-existing structural problems in the Korean economy meant that it was especially ill-equipped to handle an external crisis (Kim, 1998: 46; Lee and Kim, 2001: 87). Fourthly, there are conspiracy theorists who

argue that there was a conspiracy of foreign hedge funds concerned solely with profit maximization through the manipulation of "forward exchange market"<sup>22</sup> (Choi, 1998; The Economist, 1998). However, the majority of Korean scholars agree that the crisis was caused by internal structural problems in the Korean financial sector *as well as* the external influence of the Southeast Asian foreign currency crisis.

Looking back, one can see that it was not one single event, but a number. These were: 1. chain bankruptcies of conglomerates from early 1997 onwards; 2. rapid growth of bad credits in the financial sector; 3. decline in solvency of financial institutions; 4. rapid fall of foreign confidence; 5. failure of expiration renewal of foreign currency debt, and; 6. impact of foreign currency crisis in other Southeast Asian countries.

Let us describe the progress of the Korean financial crisis in more detail. From January 1997 chain bankruptcies, due partly to flaws in the country's financial infrastructure and partly to the declining profitability of middle-class conglomerates, such as Han Bo, Sam Mi, Jin Ro, Dae Nong, and Kia had been declared. These chain bankruptcies led to an increase in the number of bad credits in the financial institutions. As a result, foreign confidence in those institutions declined rapidly. In addition, the shortage of foreign currency that had begun to affect several financial institutions since early 1997 was getting worse, due, chiefly, to the influence of the mid-1997 foreign currency crisis in other Southeast Asian countries, particularly in Thailand and Indonesia.

Therefore, the rate of expiration renewal of foreign currency debts decreased rapidly as foreign financial institutions began to retrieve loans. When several financial institutions faced bankruptcy because of foreign debts, the Government made up the shortage by supplying the institutions with money from the national reserve of foreign currency. As a result, this reserve ran speedily dry, causing a national foreign currency crisis.

One of the reasons that Korean banks could not competently manage such risks was that they had been forced to play a role as an auxiliary industry to, mainly, the

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<sup>22</sup> A foreign-exchange market in which currencies are traded for exchange at a future date. The seller, by buying and selling exchanges for future delivery, makes a market and earns his living partly from the profit he makes by selling at a higher price than that at which he buys and partly by speculation (Pallister and Isaacs (2003: 223).

manufacturing industry for a long time; in other words, they were not regarded, or managed as, an independent industry. Although the quantitative growth (total sales or market share) of the banking sector continued, like the economy, to grow rapidly, the banks were not concerned with the pursuit of profitability. In the process of industrial development, the Bank of Korea had made a special loan to banks whenever they were suffering as a result of enterprises being declared bankrupt. This ensured that banks never failed. Therefore, banks were lazy in their assessment of the credit status of customers. Banks mainly provided loans to conglomerates that had a high ratio of debt, yet which were recognized as too big to fail, rather than superior small firms that had the potential to make profits. As a result, the asset soundness of many banks was becoming more and more fragile as the years passed.

The structural problems of banks can be summarized as follows. First, they could not establish a responsible management system because of the Government's control and over-protection; in other words they had no incentive to manage themselves responsibly. Therefore, they had serious business problems (e.g. the aforementioned weakness of credit examination, a dependence on collateral, an inclination to place too much faith in conglomerates, and the external pressure, from the Government and the conglomerates, to lend). Banks also had no say in firms' investment decisions, nor could they curb those firms' excessive dependence on loans.

Secondly, the banks' ability to manage foreign currency was poor. This caused a foreign currency liquidity problem when banks were exposed to the excessive risk associated with a major external impact, such as the Asian foreign currency crisis. Due to the deregulation of the financial industry and the capital liberalization policy by the Government, the banks, never well managed in the first place, found their difficulties compounded as they enlarged their foreign currency business without, however, possessing an adequate knowledge of the management of risk or liquidity. Furthermore, the expiration imbalance of foreign currency assets and debts became a very serious issue because banks borrowed foreign currency in the short term, and lent it in the long term. In sum, structural problems in the Korean financial sector were a main contributor to the financial crisis (Table 4-3).

As the Government believed that structural problems within the financial industry were the main cause of crisis within that industry, the focus of its remedy was reformation of

the sector. The Government therefore announced a series of measures aimed at stabilizing the financial market, and requested a relief loan from the IMF. As part of the terms of relief loan support from the IMF the Government agreed on comprehensive restructuring plans. The agreement with the IMF consisted mainly of reforms of the financial sector; these included the closure and merger and acquisition (M&A) of financial institutions that had no other chance of recovery. The agreement also contained plans for labour market reform; such reforms included the introduction of regulations to allow employers to dismiss permanent workers for managerial reasons and to use workers from outsourcing companies in order to increase the flexibility of the labour market, and thus ease the restraints employers believed were inherent in having a large, permanent workforce. Employees in the financial sector, faced with the prospect of mass redundancies, were understandably opposed to the agreement (Park, 1998; Park and Choi, 1998; Kim, 1998; Choi, 1998; Lee and Kim, 2001).

#### **4.3.2. Restructuring of the banking sector and input of public funds**

The Korean banking sector has been extensively restructured since the 1997 crisis. In the process, many financial institutions that had excessive bad loans or were exposed to extreme risks were closed. Although there had been a legend that banks never fail (until, of course, 1997), the number of retail banks decreased from 26, in 1997, to 14, in 2002, as a result of closures and mergers. On 29 June 1998, the business of five banks, Dae Dong Bank, Dong Nam Bank, Dong Hya Bank, Chung Chyung Bank, and Kyung Ki Bank, whose Capital Adequacy Ratio<sup>23</sup> (CAR), according to the Bank for International Settlements' (BIS) standard, was under eight percent, and had no possibility of management normalization, was undertaken by other banks (Kook Min Bank, Housing Bank, Shin Han Bank, Ha Na Bank and Han Mi Bank) by the P&A<sup>24</sup> (purchases and assumption) method (Table 4-6). The following mergers subsequently took place: Kook Min Bank and JangGi Bank (1998), SangiYup Bank and HanIl Bank (1998), Ha Na Bank and Bo Lam Bank (1998), and Cho Hung Bank, Chung Puk Bank and Kang Won Bank (1999). Furthermore, Jae IL Bank was purchased by New Bridge Capital, a

<sup>23</sup> Capital adequacy refers to the ability of a bank to meet the needs of their depositors and other creditors in terms of available funds. The Bank for International Settlement (BIS) requires them to maintain eight percent of their risk-adjusted assets as capital. This is known as the Capital Adequacy Ratio (CAR).

<sup>24</sup> P&A is a merger method in which the Government transfers the property and debt of a bankrupt bank to a 'superior' bank in order to dispose of the bankrupt bank easily. Then Government then takes charge of other processes of liquidation, including responsibility for employees. P&A is easier (for buyers) than the M&A method in that in the latter case the 'superior' bank is responsible for the entire process.

foreign financial institution. These mergers were the outcome of the so-called first restructuring of financial institutions by the Government in 1998/99.

Since the second restructuring began, in 2000, there have been further mergers: Kook Min Bank and Housing Bank (2001), Han Bit Bank and Pyung Hya Bank (2001), and Ha Na Bank and Seoul Bank (2002) (Table 4-6). In addition, financial holding companies, such as the Woo Li financial holding company, were established in accordance with new legislation.

Since 1997, the Government has had to commit a large level of public funding to the financial sector in order to finance restructuring. According to the Ministry of Finance and Economy, the Government had invested £41 billion for the restructuring of banking sector (£68 billion for the whole financial sector) up till March 2001 (Table 4-4). This public money has mostly been dedicated to normalizing the functions of financial institutions, and to assisting the financial market in recovering its stability. Seven banks were nationalized (Table 4-5); the Government has since tried to privatize them in order to recover the money spent on restructuring.

#### **4.3.3. The Korean financial industry after restructuring**

As a result of restructuring, there have been many important changes in the banking sector. The main, early ones were as follows. First, there was a solution to the problem of excessive competition between banks. The number of retail banks decreased from 26, in 1997, to 14, in 2002. This reduction is attributable to the fact that banks whose financial situation was so bad as to be commercially unsustainable were either closed or merged with other banks. This situation was in direct contrast to the past when the number of banks had increased constantly due to the long-lasting healthy development of the economy. In the past, the Government had authorized (excessively) the addition of new banks to the sector. Despite the presence of so much competition the banking industry (even in such a healthy economy) remained inefficient. Accordingly, the process of restructuring after the financial crisis presented the Government with an opportunity to address systemic problems that had been accumulating in the financial sector for a long time.

Secondly, there was the creation of larger banks. In the process of the restructuring of the banking sector, the superior (i.e. more efficient and more profitable) banks became bigger, chiefly through mergers, while unhealthy banks were acquired by their better-run competitors. The larger-sized banks can improve profitability and efficiency, and increase competitiveness through the effect of scale economics. In other words, the larger institutions are able to both increase their market share and reduce their costs. In addition, they can improve the effectiveness of the financial industry if they can play a leading role in the restructuring process, pricing decisions, and risk management; smaller financial institutions usually follow the market leaders.

Thirdly, there was the advance of universal banking, in the form of financial holding companies. The Government introduced financial holding company legislation in 2000, the purpose being to encourage universal banking by supporting the establishment of such holding companies. As a result, several of them, such as Shin Han Holding Company and Woo Ri Holding Company, were created. A financial holding company is a kind of financial conglomerate comprising various financial organizations, such as a bank, an insurance company, and a securities company; the holding company holds the individual companies' stocks. The holding company can pursue universal banking through a cooperative system between the affiliated companies. It can therefore strengthen its position in the financial market, reduce costs, and disperse risk through the removal of dual functions and the sharing of information.

Fourthly, there was the reform of bank governance. The Government reformed the function of the bank board of directors by making it law that the majority of directors must be from outside the company (i.e. not part of the daily management). Furthermore, the board of directors, representing the interests of shareholders, has had more extensive supervisory powers over bank management.

Fifthly, there was the reform of credit practice. Since 1997, advanced credit management systems have been introduced in order to reform some of the previous credit practices that were held to be contributory reasons for the financial crisis. They include advanced credit assessment techniques, such as the Credit Scoring System, the division of the roles, Relationship Manager and Credit Officer, and the introduction of the Loan Review System. In addition, each bank was required to establish an

independent risk management<sup>25</sup> department, which had to check the sales department as well as comprehensively manage credit, market, interest, and liquidity risk.

Lastly, there was the pursuit of performance. Banks introduced both a performance pay system (or, more accurately, one that combines both performance and seniority) and a divisional organization system in order to maximize profitability. [In the past, the banks had had a pay system based entirely on seniority and a functional organization system.] The chief of division is responsible for the efficient and effective management of his/her division. The purpose of these changes was to improve profitability and to encourage a performance culture (Son and Jung, 2001: 53-9).

## **4.4. Work Reorganization**

### **4.4.1. Introduction**

Following the financial crisis, banks have reorganized their workplaces with a view to maximizing profitability. This section looks at that work reorganization in detail, reviewing the change of organization form toward divisional organization, the fragmentation of branch business, the use of call centres, and the application of new technologies for cost minimization and customization.

### **4.4.2. Divisional organization**

In 1997, banks began to reorganize themselves along divisional lines. This replaced the former functional organization. The new focus was on the differentiation of customers (i.e. customization). In addition, the banks introduced more responsible management, by devolving decision-making to the divisions.

Previously, the functional organization in banks had meant that they were generally divided into departments having similar and related businesses. In other words,

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<sup>25</sup> Risk Management: the control of an individual's or company's chances of losing on an investment. Managing risks can involve taking out insurance against a loss, hedging a loan against interest-rate rises, and protecting an investment against a fall in interest rates. A bank will always try to manage the risks involved in lending by adjusting the level of charges and interest rates to compensate for a percentage of losses.

departments had specialist functions (e.g. personnel department, sales department, financial department, examination department, etc). One of the merits of functional organization is that problems related to a specialist area (such as training) yet which affect the whole organization can be discussed and resolved by experts in one place. However, it has problems when the size of the organization grows. The structure of the department becomes unwieldy and complicated, and the decision process can be delayed. As a result, it can be difficult for management to effectively control. Therefore, functional organization was regarded as structurally defective for an organization which wished to encourage employees to concentrate on sales and, therefore, profits (Lee and Kitay, 2002: 122).

Consequently, banks changed their organizational form from functional to divisional after the financial crisis. With the focus now on creating a sales mentality among staff and pursuing profit, banks divided their central organization into two divisions based on customers, a personal customer division and an enterprise customer division. Individual branches were also divided along these lines. Shin Han Bank and Foreign Exchange Bank went further, separating the enterprise customer division into general and big enterprise customer divisions. In effect, regional branch offices comprise two branches, one which serves personal customers, and another which serves firms. Shin Han Bank was the first to introduce divisional organization, in 1998. Since then, it has also been introduced in Woo Ri Bank (1999), Cho Hung Bank (1999), Foreign Exchange Bank (1999), Kook Min Bank (2001), and Jae Il Bank (2002) (Interviews by author with union officers and bank personnel managers, November 2003).

Shin Han Bank's 2003 annual report illustrates this changed structure well.

The bank has three individual divisions dedicated to sales, a personal customer division, a general enterprise customer division, and a big enterprise customer division. Each branch of the bank is also separated into the three divisional branches, each of which has its own chief who conducts his/her business independently of the other branches. Previously, the branches undertook all functions within a branch, sales, cash accounts [transactions], credit, foreign exchange, and general affairs (2004).

The divisional organization gives a chief of division independent management authority and the control of almost all business in the division, from development of new products, to sales, to even personnel management. On the other hand, the chief of division is also responsible for management results. In addition to independence, an

advantage of this structure is that decisions can be made, and acted upon, quickly. However, it must be remembered that branches are not fully autonomous, and there may be occasional discord between the activities of a division and those of the bank as a whole.

Due to the introduction of divisional organization, employees had to be assigned to a particular division. Problems arose when there was a conflict between employees' professional skills and ambitions and the positions (i.e. the part of the branch to which they were assigned) which they suddenly found themselves in.

As each division assumes responsibility for results, it has been found that sales divisions are reluctant to take staff no longer required in non-sales divisions. The reason is that the staff member may not have enough sales ability to justify his/her salary. In addition, co-operation between the personal and firm customer divisions is also declining as competition between them accelerates.

#### **4.4.3. Fragmentation of branch business**

Since 1997, the business of bank branches has been divided in two - front business, which is conducted in the branch office itself, and includes functions such as sales and paying-in and paying-out, and back business, conducted either in central offices or call centres, which includes functions such as filing of customer information, management of performance, consultations by telephone, and monitoring of customer calls - as banks have pursued a strategy of sales maximization, in branch offices, and cost minimization through new-Taylorism, in one of the aforementioned back business offices (Lee and Kitay, 2002: 122).

The development of new technology has enabled banks to carry out a series of changes. For instance, branch officers can now access automated records instead of going into a back office and finding a paper copy of a customer's account. They can also perform preliminary data entry during the transaction with customers. The centralization of processing work in large, separate back offices became possible through all the advantages of high throughput and specialization, and the abilities of Taylorized production regimes.

In the past, bank branches were bureaucratic organizations that dealt with all kinds of business in an office. Some branches employed more than 100 staff. A branch was a kind of small bank, with the branch chief playing the role of bank chief. However, branch chiefs are now like the chiefs of convenience stores, and all branches have become sales counters. In other words, branch employees have come to be redefined as sales staff, branches redefined as sales outlets, and the branches themselves relocated from their traditional High Street settings to shopping malls or, increasingly, as 'micro' branches located in supermarkets and other large retail outlets (A personnel manager of Kook Min Bank).

The situation in branches has, in some respects, become complicated. Even though the physical separation of front business and back business inherently entails greater specialization, conversely a degree of deskilling has also undoubtedly taken place in some positions. In some cases, the demise of the branch employee with a full range of banking skills does, indeed, mean that jobs are more routine, and require less skill (or, a smaller range of skills). In other cases, however, branch staff are expected to be able to perform all kinds of front office tasks, and need to possess the traditional banking skills of performing quick and accurate transactions. Furthermore, conducting sales business undoubtedly requires new skills, although staff now receive help from prepared scripts and computerized customer profiles.

If no common trends can be identified in the skill requirements of banking jobs, the same cannot be said for work intensification. Back office work in central processing areas is subject to the efficiencies of large volumes of standardized work, and most banks set branch staffing levels using sophisticated computer models. Employees commonly view the results as chronic understaffing.

Pressures on staff have also mounted with the introduction of sales targets for branches and individual employees. Computerization's information-sharing potential can be used not only for providing branch staff with financial records, but also for keeping management informed of the outcomes of customer interactions. Tellers are expected to make referrals to customer service staff to sell products. Although branch officers previously reported to higher management in terms of months, they can now be monitored in (close to) real time, down to individual work positions. A common theme in this regard is that not only do employees have little input into the level at which their

targets are set, but also targets are frequently moved - usually higher - before they can realistically be achieved.

#### **4.4.4. New-Taylorism**

One of the most important developments for work rationalization in the banking industry has been the establishment of call centres, operated as a kind of assembly line. Call centres use Computer Telephony Integration (CTI), the integration of telephone and Visual Display Unit (VDU) technologies. Work in a call centre is mainly composed of inbound operation and outbound operation. Central to the former is the Automated Call Distribution (ACD) system that receives incoming calls and automatically channels them to waiting operators according to pre-programmed instructions (Taylor and Bain, 1999: 102).

In the case of outbound operation, concerned largely with telesales or telemarketing, the Predictive Dialing System (PDS) works its way through databases of customers' phone numbers, and, in accordance with programmed requirements, automatically dials the number, connecting operator to customer. Prior to, or at the precise moment of connection, the relevant customer details appear on the screen, enabling the employees to make informed communication. In outbound operation, the onus is placed on the employee to either sell, or create interest in, a particular product or service. However, the simple inbound/outbound dichotomy is becoming inapplicable in call centres because operators, when dealing with incoming queries, are also required to attempt to sell from a menu of products (Ibid: 108).

Through these automation processes of operation in the call centres, it is possible to optimize the number of people taking calls to the size of demand. In other words, whenever an operator finishes a call from a customer, the next call is automatically delivered to the operator without any slack time. Calls keep being fed to the worker like yet-to-assembled parts of vehicles, which keep coming through a conveyor belt in an auto factory. Workers in call centres have to expect or associate endlessly coming calls in their mind as soon as they finish a call. That is why operators have to have 'an assembly line' in their heads (Ibid: 109).

Where the processing business has been removed from branches and centralized in call centres, specialization has increased concomitantly as branch staff can concentrate on sales and transactions, while even call centre staff can concentrate on processing. However, the Taylorization of jobs can cause particular problems in processing centres; these include low-trust relations, dissatisfaction, and conflict between managers and operators derived from notoriously poor working conditions. Many operators in the call centres share a dislike for the new sales model, preferring, instead, the routine of the back office to the requirement to sell products. They frequently find the latter to be intrusive and distasteful.

As a result, the fiercely competitive environment and the demanding labour process, combined with labour market pressures, are generating a series of profound problems for employers. First, demotivated, stressed staff are less capable of sensitive and responsive interaction with customers even though the role of call centres has shifted from simple inquiry handling to value-adding business, such as product sales and customer relationship management. Secondly, many call centres experience high levels of staff turnover due to the intrinsic pressures of the job and the flat organizational structures which mean that operators cannot anticipate promotion opportunities (Ibid: 110 and Tables 4-17 and 4-20). Annual turnover rates are now over 20 percent (Lee, 2000) because operators are constantly looking for alternative employment possibilities providing better salaries and working conditions.

A 2003 KFIU survey of irregular employees (Tables. 4-7 and 4-11-4-21) reveals, in detail, the situation in Korean bank call centres. Looking at the specific situation of the Kook Min Bank call centres the number of staff, as at June 2003, was 1,580, 1,430 of whom were irregular staff. Of these, 1,350 were consultants and 80 were supervisors. The former were divided into inbound consultants, who dealt with customer inquiries, and outbound consultants, responsible for sales of financial products and credit cards. The ratio of inbound consultants to outbound consultants was 4:1. Supervisors are in charge of the consultants. Regular staffs in the call centres were responsible for back business, such as the filing of customer information, management of performance, planning, training, and monitoring of customer calls. Call centres were operated as a form of bank branch. Other banks in Korea operate their call centres in a similar way. However, Cho Hung Bank and Foreign Exchange Bank have outsourced their call centre operations to their subsidiaries (Table 4-7).

#### 4.4.5. New customization

The development of new information technology has enabled banks to undertake mass customization to a degree that was unimaginable in the past. Mass customization may be defined as a new effective way of service delivery designed to meet customers' diversified demands for services on a massive scale in terms of shortened lead-time, punctuality, prioritization, and convenience. Pine and Joseph (1993) note that mass customization has been extensively adopted in the service sector. Macdonald and Carmen (1996) argue that customers often intervene in services production to a more or less degree because services are produced in the interactive processes between customers and service workers. It is related largely to frontline workers who contact customers directly rather than to back office workers.

Customization in the banking sector is being constantly developed. Since 1997, Korean banks have pursued a strategy of customer differentiation. They now allocate more time and personnel to profitable customers than to general customers. As for effective customer differentiation, banks have developed customer relation and risk management skills such as the Credit Scoring System (CSS) and Customer Relation Management (CRM). In addition, banks offer a 'One-stop Service', in which staff deal with a wide range of services with the customer on the spot. This effective customization is made possible by the fact that the staff member can have immediate access – via computer – to all the relevant information about a customer.

The customization of service delivery – the means include Automatic Teller Machines (ATMs), call centres, and Internet banking – has also gradually developed as banks have pursued their competitive advantages through the provisions of more responsive services (Table 4-9).

Above all, it is the customers' increasingly sophisticated demands for services and products, coupled with their pursuit of convenience, which have underpinned customization. Berry et al. (1994) argue that competitive advantages lay in firms' abilities to provide customers with both diversified services tailored for individual tastes and high standards of reliability and responsiveness.

### **Differentiation of service**

Banks use differentiated customization strategies according to customers' differing levels of contribution to bank profits. Thus, more resources are devoted to wealthier customers. The introduction of divisional organization immediately identified which customers were individuals and which were organizations. The enterprise customers' branch includes staff with the title, Relation Manager (RM). RMs take charge of several firms and provide a one-stop service for them, offering advice on loans as well as doing credit assessments.

A branch division responsible for personal customers also provides differentiated services, according to the size of the customer's actual and potential contribution to bank profitability. There are generally three counters in a branch for personal customers, a counter for simple paying-in and paying-out, a counter for one-stop service, and a counter for superior customers (i.e. those who have a deposit of more than £25,000). Banks position irregular employees (who receive a lower wage than regular employees) as tellers at the counter(s) for simple paying-in and paying-out, and which requires an ability to deal with business quickly and accurately. On the other hand, regular staff are employed at the counter(s) for one-stop service; these staff deal with customers' problems, products sales, and the opening of new accounts. Staff at the counter(s) for superior customers are known as 'Private Bankers' (PBs); they provide support on all the financial services offered by the bank. The arrangements for personal customers can vary. The Shin Han Bank has three counters for personal customers, a 'Fast counter' for simple business, an 'OK counter' for one-stop service, and a 'PB counter' for superior customers. Each Kook Min Bank branch has four counters, a 'One-line counter' for simple business, a 'Product sales counter' for one-stop service and product sales, a 'PB counter' for superior customers, and a 'Soho counter' for self-employed persons (2003 Annual Reports of Shin Han Bank and Kook Min Bank).

These differentiated services are evidence of a development in customization. However, not all customers are pleased. Banks are losing the trust of more general personal customers, who are experiencing worse service than they received in the past.

## **New techniques for customization**

Banks have actively used new tools in order to analyze new business opportunities and to provide better customer service according to customers' tastes and needs. They have also needed new skills to manage and analyze the huge volumes of data captured by their systems. The objective has been to get the right information, to the right people, and at the right time, in order to carry out a number of critical business activities and provide better customer service. Therefore, they have recently adopted new marketing measures, such as Customer Relation Management (CRM) and the Credit Scoring System (CSS). These new techniques for customization enable banks to exploit changing and widening markets, to implement a customer-centric approach, to concentrate on financial budgeting, cost control, and risk management, and to figure out new ways to minimize costs, while increasing profitability and shareholder value.

### **Customer Relation Management (CRM)**

Finding and keeping customers is the heart of bank business. In recent years, the concept of Customer Relation Management (CRM) has been developed as a way for businesses to approach customer relations systematically and efficiently. Of course, business has always had relationships with customers. What is new about CRM is the focus on actively managing customer relations in an organized and strategic manner. In practice, it means developing a company's internal operations, software and Internet capabilities so that its customer relationships can become more profitable. For example, a company could use CRM to track key customer information, such as accounts, buying histories, and preferences so that it can match customer needs with product plans and offerings.

CRM has many potential benefits. It can help companies identify their best customers, enrich and individualize customer contact, manage marketing campaigns, reduce customer response times, and serve wide geographical regions. All in all, it can help to build long-term, profitable customer relations. CRM is important because, fundamentally, it is cheaper and more efficient to retain your existing customers than to find new ones (www.bba.org.uk. 21 July 2003). For example, the Han Mi Bank recognized that just seven percent of its customers contributed to 90 percent of the bank's total profit. The bank thus realized that to remain constantly in profit it needed to prioritize, and focus on these customers. The bank first identifies existing superior customers and potential superior customers through data analysis. The bank then

appoints a PB for each superior customer in order to manage the customers continuously and create more profit from them. The bank also nominates a particular caller (from a group whose job it is) to phone potential superior customers regularly, with the aim of inducing them to become superior customers (ciokorea.com.21 July 2003).

Banks mainly use direct mail (DM) and the telephone as the methods to contact customers. Usually, after analyzing customers' individual needs, the bank will first mail information about appropriate products and/or services to a customer. Later, the bank's telemarketers will call the customers and attempt to sell them the product(s) and/or service(s) (crmpark.com.21 July 2003).

### **Credit Scoring System (CSS)**

All banks in Korea now use a CSS in order to make quick decisions on customer loans. The active use of a CSS became possible once all staff members had been supplied with their own personal computer. Staff can now make a decision on whether or not to approve a loan while they have a conversation with the customer. Prior to the introduction of the CSS, banks made decisions on personal loans by recourse to such simple standards as the customer's annual income or a jobs rating table. However, the CSS is a system that calculates loan amounts according to the credit scoring of the customer. The score is calculated by referring to all the information about a customer's credit (e.g. income, job, financial situation, and history of financial transactions). The CSS makes it possible to reduce costs through effective risk management and a system assessment by a devised system mechanism. In addition, it is easier to please a customer if a decision is made quickly. The CSS is divided into the Application Scoring System (ASS) and the Behaviour Scoring System (BSS).

The ASS is a system that predicts future credit by an assessment of the applicant's current information. It is used when a customer applies for a credit card or a loan. The BSS is a system that protects credit accidents and predicts the possibility of a customer being declared bankrupt through a check of a customer's credit history. The BSS is mainly used to develop differentiated strategies to attract credit card customers, based, as the name suggests, on their behaviour.

"Credit scoring is a technique used to assess a customer's ability to run their financial affairs. Credit scoring uses information from the bank's own records, although it may also include data received from credit reference agencies. The system helps banks make decisions about opening accounts and granting credit. Credit scoring uses statistical techniques to measure the likelihood that a customer applying for credit will be a good credit risk" ([www.bba.org.uk](http://www.bba.org.uk)).

The CSS works through the process of data mining analysis that is aimed at delineating client behaviour profiles, in order to measure the probability of their purchasing a new product or service or, conversely, the possibility that they will take their custom elsewhere. The fundamental prerequisites needed to reach these aims are: an appropriate technological infrastructure, a data environment for marketing analysis, and a methodological knowledge for data analysis.

#### **Diversification of delivery outlets**

New technology has also enabled the diversification of delivery channels for banking services. Customers no longer need to enter a branch to conduct business. Simple transactions can be performed using electronic means such as Automatic Teller Machines (ATM)<sup>26</sup>, Electronic Fund Transfer at the Point of Sale (EFTPOS)<sup>27</sup>, Internet banking, and mobile banking, significantly reducing the staff and property costs associated with branches and allowing customers the convenience of 24-hour banking. It has become unnecessary for branches to deal with customer inquiries, as call centres have been established to handle a high volume of calls.

Customers have been encouraged to change their behaviour, from entering branches to using the new low cost channels. Where they have proved reluctant to do so voluntarily – particularly those who value the opportunity to speak face-to-face with a bank employee – banks have introduced fee structures with incentives to use the lowest-cost mode of delivery and penalties for transactions carried out in branches. As a result, the use of call centres, Internet banking, and mobile banking is increasing rapidly.

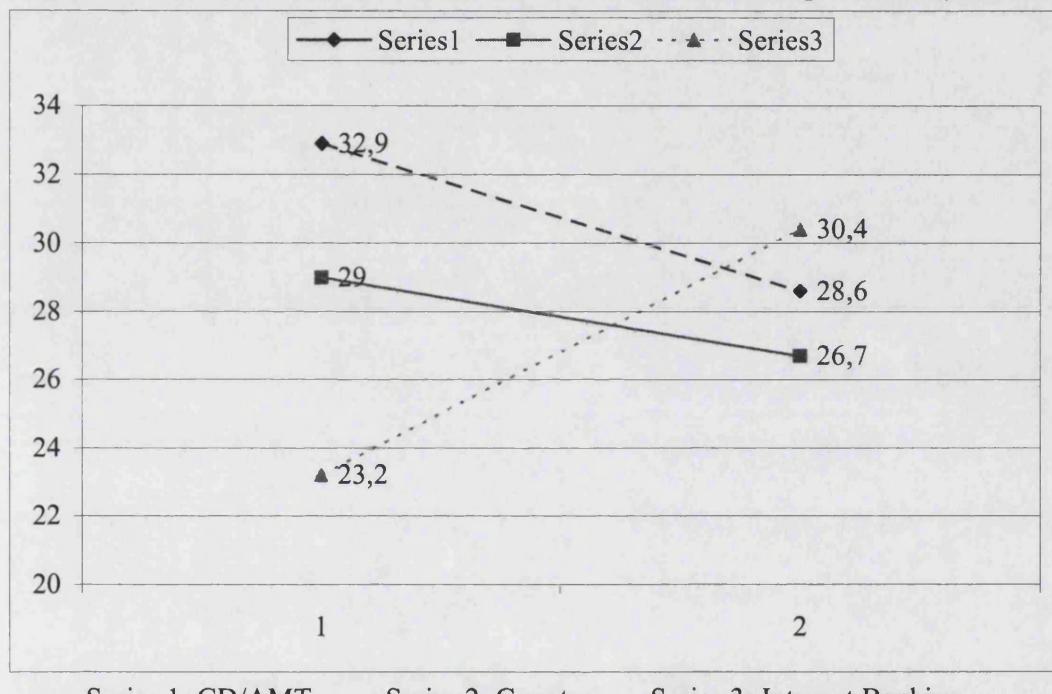
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<sup>26</sup> ATM (or Cash Dispenser): A computerized machine usually attached to the outside wall of a High Street bank or placed in convenient places for customers that enables customers to withdraw cash from their current accounts, especially outside normal banking hours.

<sup>27</sup> EFTPOS :Automatic debiting of a purchase price from the customer's bank or credit card account by a computer link between the checkout till and the bank or credit card company.

According to the Bank of Korea, the ratio of Internet banking to the full range of banking services in commercial banks rose from 23.2 percent, in 2002, to 30.4 percent, in 2003. On the other hand, the ratios of counter service decreased from 29 percent, in 2002, to 26.7 percent, in 2003, and of ATM services, from 32.9 percent to 28.6 percent. The number of customers using mobile banking, begun in 2002, increased from 1.1 million, in that year, to 2.56 million, in 2003 (Figure. 4-1). The main reasons for the increased use of new channels are their inexpensiveness and convenience.

**<Figure 4-1> Ratio of Business in Korean retail banks according to delivery outlets**



Series 1: CD/AMT. Series 2: Counter Series 3: Internet Banking

- 1: 12.2002 2: 12.2003
2. Source: The Current Situation of the Use of Internet Banking (Bank of Korea, 2004).

## 4.5. Changes of employment relationship

### 4.5.1. Introduction

As we have seen, following the 1997 financial crisis, the Government carried out an extensive restructuring of the financial sector based upon its diagnosis that the Korean financial crisis derived from structural problems within the industry. The restructuring focused on establishing the financial soundness of the sector's institutions. Therefore,

the closure of bankrupt financial institutions, mergers of banks, and personnel restructuring (i.e. redundancies and the use of irregular employees) in all financial institutions, was carried out endlessly, in order to reduce costs and to attain labour flexibility. In addition, banks have refocused their management strategy, from a growth in quantity through the increase of market share to a growth in quality centred on profitability. Due to this change, human resource management in the banks (i.e. evaluation and pay systems, and recruitment and education methods) has also been dramatically revised. This section looks at the changes in the employment relationship in detail.

#### **4.5.2. Employment security**

##### **4.5.2.1. Reduction of regular employment**

Since the financial crisis in 1997, banks have shed regular staff through endless redundancy. The number of regular staff decreased from 113,994, in 1997, to 66,881, in 2002 (Table 4-10). One of the roots of this policy lies in the IMF (to whom the Korean Government had applied for assistance) requirement (as a condition of the rescue fund) that steps be taken to improve labour market flexibility. As a response, President-elect Kim Dae Jung established the Presidential Tripartite Commission. In February 1998, the Commission reached an agreement to allow enterprises to offer redundancies when they were absolutely unavoidable, as in cases of mergers and acquisitions (M&A), or a firm's imminent financial crisis. As a result, confrontations between unions and management regarding redundancies escalated as unemployment increased rapidly (Table 4-10).

There were internal reasons for the financial crisis in Korea that can largely be explained by corporate misbehaviour and government negligence. Enterprises, including some of Korea's key multinational companies and financial institutions, borrowed too much money from both internal and external financial institutions and invested in too many industries at home and abroad. However, it is also true that the Korean banking sector itself functioned ineffectively in the market (Park, 1998: 11). Excessive corporate investment indebtedness would not have occurred if the financial intermediaries had played their proper roles, that is, if they had made critical assessments about the profitability of investments and the risks inherent in corporate finance. Furthermore, if the Government had properly played its role as a rule setter, regulator and supervisor,

rather than promoter and grantor (often informally), the financial institutions would have been able to monitor and manage risks. Instead, most banks in Korea took it for granted that the Government would protect them from any possible debt crisis.

The aftermath of the crisis required the recapitalization of financial institutions with public funds, which led to the de facto nationalization of a number of Korean banks. By the end of first and second round of Korea's bank restructuring in June 2001, £41 billion of public funds had been spent, 12 banks had closed, and some larger retail banks realigned through government-arranged recapitalisation and mergers. The number of regular employees had also decreased by 41.3 percent between 1997 and 2002. On the other hand, the number of irregular employees increased by 53 percent, from 15,043 to 22,951, during the same period as the banks filled many of the positions vacated by regular employees with irregular employees in order to save costs and to pursue labour flexibility. In all, the total number of employees in the banking sector decreased by 30.4 percent, from 129,037 in 1997 to 89,832 in 2002. The number of banks' branches also decreased, by 16 percent, from 5,987 in 1997 to 5,019 in 2002 (Table 4-10).

The methods used as the means of employee reduction were voluntary retirement (i.e. so-called 'honorary retirement') and forced employment adjustment. A survey of employment adjustment in the financial sector (Lee, 2000) shows that voluntary retirement accounted for 56.3 percent of the departures, while the remaining 43.7 percent were cases of forced employment adjustment. The forced retirements were usually, firstly, a list of employees laid-off following a unilateral announcement; this was then followed by the enforced retirement of specific individuals. Even many cases of voluntary retirement were also executed by indirect forced means.

Both retirees and remaining employees point out problems of the procedure of employment adjustment. They say that both the amount and principles of employment adjustment were unreasonable. The amount, about 32 percent of the total number of employees, was decided unilaterally by the Government without an objective and concrete examination (Lee, 2000).

#### **4.5.2.2. End of lifetime employment and increase of irregular employment**

Lifetime employment was virtually promised to the staff of Korean banks until 1997. However, due to the financial crisis, the tradition of lifetime employment ended as

banks were closed and merged, and had to carry out huge redundancy programs in order to survive. Banks began, frequently, to recruit irregular employees in order to fill the (reduced) number of vacancies. As a result, the number of irregular workers increased rapidly. As already noted, between 1997 and 2002, the number of irregular employees rose by 53 percent while the number of regular staff members decreased by 41.3 percent. In 1999, 90 percent of new recruits in the banking sector were irregular employees; most of them were women (Kong, 2002).

Many irregular employees were actually ex-regular employees, and nearly all were re-engaged to perform the same or similar work within the same bank. Under pressure from management, they had had to resign their old positions, often with the inducement of additional retirement funds. Unable to find work elsewhere in the restructured sector they had returned to fill what vacancies did exist. However, they received a much lower salary than regular employees. Casual wage rates were cut by about 50 percent, while some employees who were forced to accept part-time work earned only 20 percent of their previous incomes. More than 50 percent of tellers in 2000 were irregular employees (on average, each branch employs three to five tellers) (Lee, 2000).

Middle managers have been less vulnerable to the effects of structural adjustment than either the top or bottom group because the redundancy programmes were focused mainly on managerial staff, who received high salaries, and low-level female staff who could be replaced by irregular staff. Many middle managers were dispersed to the new teams or units introduced in the organizational changes within the banks. In other words, functional flexibility has chiefly been applied to lower-level employees. However, middle management may be faced with new challenges as the impact of IT continues to grow. Most importantly, even managers themselves suspect that they cannot survive as generalist employees in the new era (Lee, 2000).

#### **4.5.2.3. Situation of irregular employees**

The number (and percentage) of irregular employees in the banking sector continues to grow. As Table 4-10 shows, the number have increased from 15,043, in 1997, to 22,951, in 2002; in percentage terms, irregular employees now account for more than 33 percent of the total bank staff. Accordingly, many scholars have turned their attention to the employer-irregular employee relationship.

This section looks at the situation of irregular employees. Extensive use is made of a questionnaire survey, published in July 2003, by the KFIU. A total of 5,020 questionnaires were distributed to employees in all banks; 2,745 responses were received. Of these, 1,169 were from irregular employees and 1,564 from regular employees. The analysis of the survey sheds a revealing light on the situation of irregular employees with respect to a variety of issues, including the jobs to which they are appointed, recruitment and training, pay, promotion, fringe benefits, working hours, and levels of satisfaction with their employers.

### **Irregular employees: positions held**

According to the KFIU survey, the total number of irregular employees in the financial institutions (with which the KFIU is involved) in June 2003 was 37,291. Breaking that figure down by job, the most commonly held position was that of teller (14,822, or 39.7 percent). However, the number employed in call centres showed a higher increase ratio, 58 percent, from 3,109, in December 2002, to 4,912, in June 2003. Furthermore, the number of irregular employees in secretarial and professional positions increased dramatically, by 108.2 percent, from 2,196 to 4,571, and 324.5 percent, from 102 to 433, respectively (Table 4-11).

### **Recruitment and education/training**

The banking industry recruits most of its irregular employees by placing advertisements in newspapers or from choosing the most appropriate of the unsolicited applications that are sent to banks via the Internet. However, informal recruitment by branches also exists. Research shows that open recruitment accounted for 40.9 percent of irregular employees while informal recruitment by private introduction accounted for 31 percent (Table 4-12). More than two-thirds of irregular employees (67.3 percent) said that they taken irregular jobs because they could not find regular jobs, while just 8.5 percent reported that they chose an irregular job because they wanted to job that did not interfere with their personal life (Table 4-13).

A survey on training reveals that 59.9 percent of irregular employees did not receive the basic training that new regular employees get, while 72.8 percent did not even receive on-the-job training (OJT) (Table 4-14). The reason for this might be that banks recruited experienced workers, and that the jobs assigned to irregular employees were simple.

### **Pay, promotion, and fringe benefits**

According to a survey by the KFIU, the annual pay of irregular employees was 46 percent of that of regular employees; that gap increased when bonuses were taken into account (Table 4-15). In addition, annual pay increases for irregular employees are very small, and promotion is almost impossible. Because of the attractions of higher pay and employment security 86.8 percent of irregular employees expressed a hope that one day they would become regular employees (Table 4-16). However, 91.5 percent of them believed that the possibility of transfer to regular employment was very small or non-existent (Table 4-17).

There are also much bigger differences regarding fringe benefits between regular and irregular employees. The former more often receive housing loans, education fee support both for themselves and their children, leave days, and expenses for congratulations and condolences (Table 4-18).

### **Working hours**

There was a one and a half-hour difference in the number of hours worked each week by regular and irregular employees. Regular employees work that extra time on the management of overdue loans (Table 4-19).

### **Satisfaction with firm**

According to the survey, 86.2 percent of regular employees answered that they were satisfied with their firm, while 56.1 percent of irregular employees reported that they were not satisfied with their firm (Table 4-20). The main reasons for the latter are unhappiness with pay and fringe benefits, limited opportunities for promotion, and dissatisfaction with the working conditions. They said that they receive much less pay than regular employees, although they do the same or similar work. Accordingly, the survey shows that 23.6 percent of irregular employees are actively seeking a better job elsewhere (Table 4-21).

#### **4.5.3. Changes in human resource management**

Due to the financial crisis, HRM policies in banks changed from the traditional 'soft HRM' to a 'hard HRM'. In effect, this meant that bank management strategy changed

from the pursuit of stability in the long-term (a developmental perspective) to the pursuit of a flexibility which was more conducive to short-term profitability (Beardwell and Holden, 2001: 6-7; Legge, 2005: 105).

#### **4.5.3.1. Compensation**

##### **Change of pay system**

Since 1997, as part of the restructuring of the banking industry, the pay system has been based on performance. Traditionally, the pay system in Korean firms had been based on seniority and education level. Pay levels were decided mainly on the basis of an employee's length of service and education career, with the pay increasing automatically with the passing of each working year. Pay in the banking industry is composed of three items, basic pay, allowances, and bonuses. The basic pay is decided by a grade (i.e. progress to a higher grade requires promotion) and a class (i.e. progress to a higher class occurs automatically every year). Allowances differ according to an employee's grade, and bonuses are decided in proportion to the employee's basic pay. Pay based on seniority has some merits; these include stability for both the organization and the employee (i.e. each knows the present and future place of an employee in the organization's hierarchy) and the establishment of a ranking order. The system functions most effectively when the national economy is stable and experiences lasting growth. On the other hand, the system can be exposed as rigid and costly when the economic environment is neither good nor certain. In addition, pay based on seniority does not encourage personal motivation as it fails to reward performance and ability (Park, 2000: 190).

There were several reasons for Korean companies to have a pay system based on seniority. First, Korea's traditional Confucian values emphasize hierarchy in organizations. In addition, traditional paternalism and the pursuit of harmony based on equality make it difficult for firms to conceive of differentiation based on ability and performance. Secondly, it was possible for firms to increase pay constantly, due to the country's long-lasting (i.e. since the 1960s) economic development. Thirdly, Korean firms had a tendency to preserve pay consistency within industries (i.e. the pay levels in all banks were similar). This last factor was, in a sense, supported by the Government's uniform labour policies.

However, a differentiated pay system based on performance was the inevitable concomitant of the revolution in business attitudes (i.e. the introduction of management methods based on maximizing profitability) that developed rapidly following the 1997 financial crisis. Performance-related pay could provide motivation for effort and co-operation to maximize results for the firm; it was also good for morale if staff realize that they will get paid more when profits are good. On the other hand, it could transfer some of the firm's risks to its workers, who if they are risk-averse might prefer incomes which were smaller on average, but safer (Heery, 1997b).

Nevertheless, a basic pay, depending on employee's class and grade, still exists strongly; only the size of the bonus is based on performance evaluation. Namely, non-merit pay still exists. This differs from the American system, in which the total annual pay is calculated on the basis of performance evaluation (see Table 4-22).

#### **Advance of pay for performance and promotion**

As already noted, the pay and promotion system in banking has traditionally been based on seniority, employees' salaries being calculated according to pay class and grade. Pay class is a ladder of pay that is upgraded automatically every year from an entrance year, while grade is a ladder of promotion. In the case of Kook Min Bank, pay classes generally begin at six and continue to 40. High school graduates start from the 6<sup>th</sup> class while university graduates start from 10<sup>th</sup> class (because they have had four more years' education); employees then proceed at the rate of one class per year of employment. Grades are divided into six ladders. High school graduates start in the 6<sup>th</sup> grade and university graduates start in the 5<sup>th</sup> grade. Promotion from grade 6 to grade 5 is carried out automatically. However, employees have to pass a promotion exam in order to be promoted from 5<sup>th</sup> grade to 4<sup>th</sup> grade. Subsequent promotions from 4<sup>th</sup> to 1<sup>st</sup> grade are based on seniority and performance (Lee, 2002: 136).

However, since the 1997 financial crisis, banks have tried to change the wage and promotion system in order to improve employees' productivity although the basic wage and promotion structure remains intact. Nonetheless, there have been changes, and the new performance-based wage systems have advanced as follows. First, banks introduced a collective performance bonus that is awarded to all employees if the organization has made a profit at settlement.

Secondly, banks introduced a performance-based bonus system in the late 1990s that rewards specific groups and individuals. Cho Hung Bank, for instance, introduced such a system in 2000. The performance bonus system's targets are composed of four parts, a financial part, a non-financial part, a self-venture part, and a sales part, each of which is assessed and rewarded individually. In the financial part, professional experts, such as foreign exchange dealers, fund managers, and M&A brokers are awarded bonuses if their achievements exceed targets. The performance bonus of the non-financial part focuses on employees who contribute to the introduction of new systems and new products, and provide sales information and new ideas to management. In the case of the venture part, the bank rewards employees who have formed self-venture teams which achieve their business targets. Lastly, the performance bonus of the sales part recognizes groups and individuals whose sales results exceed pre-set targets.

Thirdly, the banks introduced an individual performance bonus system for managers in 2000. Again, the level of achievement determines the size of the bonus. Fourthly, in 2002, after an agreement with the union, Foreign Exchange Bank introduced an individual performance bonus system for all employees. The system operates as follows. The bank, as before, firstly pays a basic wage based on seniority to all employees. Secondly, the bank pays a differential bonus (it ranges from 600 percent to 1,500 percent) to managers; the earlier bonus was fixed at 1,000 percent. Lastly, the bonus banks pay to general employees cannot, as a result of the union agreement, ever fall below 1,000 percent; however, the maximum to which it can rise is only a little higher, 1,075 percent. The last offer was agreed to by unions and management as an incentive to union members resistant to the idea of a performance-based wage system (Kook Min Daily, 7 January 2002).

Although the individual performance wage system is still new the expectation is that inefficient and/or ineffective employees will be weeded out. In addition, several banks in Korea have offered stock options to high-performing managers. Shin Han Bank conferred 472,000 shares in 2000 as a stock option to managers, apportioning them according to the achievements of each individual manager. Ha Na Bank also gave managers 968,000 shares as a stock option, again based on performance. One bank manager has commented that the differential grant of stock options plays a key role in the transition to a performance wage system (Kyung Hyang Daily, 26 May 2000).

Along with the introduction of these performance wage systems, banks have begun to promote employees on the grounds of their performance and ability. In short, the traditional wage and promotion systems based on seniority have been replaced by ones based on performance and ability.

#### **4.5.3.2. Evaluation**

Korean banks have traditionally incorporated the evaluation of an employee's ability and achievement into a single assessment, usually carried out by the personnel management department; the outcome was known as a merit rating. The evaluation was based on information acquired at the admission stage, was one way, and input-oriented. The merit rating was used in consideration of promotions in grade and advances in class. However, since the financial crisis, and the introduction of management for profitability and performance-based pay, the methods of evaluation have changed to a graduation method, involving two-way evaluation (or multi-evaluation), and output-oriented.

To explain the above in detail, first, evaluation in the past used just an admission method for promotion. The admission method was used to decide successful candidates after fixing the number limit (or the ratio) for admission. It was a kind of relative evaluation to rank the staff. However, a graduation method, linking pay increases to performance, has recently been introduced. With the graduation method, employees are granted pay rises on attaining a certain standard or achieving a particular target. It is an absolute evaluation in that it is based on objective standards.

Secondly, evaluation was previously one way, as the assessment of an employee was based on the opinion of his/her manager. However, since 2000, banks have started to use two-way and multi-side evaluation in order to increase credibility and propriety (Table. 4-24). In two-way evaluation a supervisor and his/her subordinate evaluate each other. In multi-side evaluation, evaluation is carried out by superior officers, colleagues, and subordinates. This form of evaluation assists in personal development as employees can recognize their problems and revise them through feedback. However, multi-evaluation is still relatively new in Korea; just three banks had introduced it by 2003.

Thirdly, evaluation based on the input-oriented method has been replaced by the result-oriented method. The input-oriented evaluation measures are length of service,

educational qualifications, and number of certificates. On the other hand, output-oriented evaluation measure relies upon achievements of business targets (e.g. Management By Objectives (MBO)). MBO is a goal-directed process that relies on setting clear targets for each employee and reviewing his/her performance against these targets. The targets are established through a joint discussion between employee and his/her manager. The participation in target setting is designed to increase the employee's commitment to achieving the targets. MBO has been used in all banks since pay for performance was introduced (Table 4-24).

#### **4.5.3.3 Recruitment**

Recruitment is the process of generating a pool of candidates from which to select the appropriate person to fill a job vacancy. Recruitment policies have become more flexible. Recruitment in the past was conducted on a regular basis, usually once or twice a year. This has now changed to irregular recruitment; in other words, banks now recruit at any time. Advertising of positions on the Internet, instead of in daily newspapers, is now spreading. In addition, more employees are now obtained from employment agencies now that the labour market is more flexible; irregular employees are likely to be registered with such agencies. Banks have typically filled managerial vacancies through internal recruitment (i.e. promotion or transfer), but filled general employee vacancies through external recruitment.

New entrants are either university graduates or high school graduates. Before the financial restructuring started in 1997, banks undertook a large-scale external recruitment at least once a year. However, since the financial crisis and the subsequent large-scale reductions of employment as one of the main means of restructuring, banks have all but ceased the external recruitment of regular employees, preferring, instead, to employ irregular staff.

Therefore, the number of the latter has increased rapidly while the number of the former has decreased significantly (Table 4-10). The irregular employees recruited by the banks have mostly been appointed as tellers or to call centres; few have been professionals. Their employment contracts are renewed every two years (as labour law prohibits longer contracts, chiefly to protect the abuse of such irregular employment contracts). The small numbers of irregular employees assigned to specialist professional positions (they include fund managers, foreign currency dealers, human resource managers, and

lawyers) have been recruited through employment agencies; they also have fixed-term contracts.

There are several steps to the recruitment process. Banks, first, select about three times as many employees as they need after a thorough examination of the written applications. Secondly, after these have been interviewed by working-line managers, a short-list, comprising about 1.5 times as many vacancies as there are, will be compiled. Finally, these will be interviewed by bank executives, after which a final decision is made. The first interview focuses on the business ability of the interviewee while the second concentrates on character and personality (i.e. the applicant's personal qualities). [Note: Many banks have recently begun to outsource, to job agencies, the first stage of the above process (i.e. the review of written applications) as the numbers of applicants have become so great and, therefore, so time-consuming to review.]

#### **4.5.3.4. Education/ training**

The education (or training) of bank employees in Korea was traditionally conducted in-house through a system of job rotation, On-the Job Training<sup>28</sup>(OJT), and courses, most of which were offered by the bank's own education centre. Most staff were therefore generalists, not specialists. However, banks are now turning to external education resources to supplement the internal system in order to produce financial experts. The main reasons for these changes are to save costs and time (Park, 2001: 18), and to foster a small number of experts who will produce greater profits for the banks. In addition, the development of computer technology has made it possible for employers to offer what is known as cyber education.

Education of bank employees now proceeds in three directions. First, it aims to produce financial experts such as analysts (of enterprise credit and risk, and wealth management) and dealers (of stock, bond, and foreign exchange). Banks thus send employees to higher education institutions, either in Korea or overseas. For example, Woo Li Bank sends selected employees to Michigan University in America. It also sends others to Asian and East European countries to foster them as regional experts. Ha Na Bank is one that enrolls elite cadets at a home university, in this case, the MBA course at Korea University (kbir.moneytoday.co.kr).

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<sup>28</sup> OJT is a training method that employees receive instruction within the place of work, usually through observing the tasks, being guided through them by experts, and then practicing them.

Secondly, self-education is encouraged. Employees who enrol in private education institutions to improve English and computer skills, or to acquire certificates related to bank business have their tuition fees fully or partly paid by the employer. The subsequent academic achievements are also recognized on their personnel records.

The third form is cyber education. This is very useful when banks need to inform employees, very often in branches throughout the country, about new products and trends. For example, Ha Na Bank's 'Cyber Academy' offers a great variety of courses suitable for employees of all levels; employees are also able to study at the speed and at the time that is most convenient to them. Among the packages offered are AICPA (American Institute of Certified Public Accountants) courses such as CFA (Credit Financial Accountant) and CRA (Credit Risk Analyst). However, one of the problems of cyber education is that employees do not necessarily study hard. Woo Ri Bank has attempted to overcome this problem by making employees take exams every two months in order to improve the effect of cyber education while Shin Han Bank sets aside compulsory education/training hours ([www.goodbank.com/company/recruit](http://www.goodbank.com/company/recruit) and Table 4-27).

In conjunction with these new education trends, banks still offer banking-related courses, a traditional education method, in order to educate employees in general, practical business. These days, such education tends to focus on sales and marketing. The courses are chiefly conducted at each bank's education centre or at the Korean Financial Education Centre. Banks also place a great emphasis on kindness and helpfulness to customers. Both Han Mi Bank and Kung Nam Bank employ a customer service team whose job is not only to provide customer relations education to staff but to monitor the kindness shown to customers by employees. The team's assessment is then fed into the calculation of the performance-based bonus of employees ([emanner.co.kr/admin/view](http://emanner.co.kr/admin/view). 20 June 2003).

Some banks have also established outplacement support centres, where ex-employees are given advice regarding re-employment and business foundation. Kook Min Bank set up the first such centre in early 2003. The first intake comprised 126 ex-employees, 81 percent of whom succeeded in either finding work with other organizations or establishing their own businesses (Money Today, 20 March 2003).

## **4.6. Changes of industrial relationship**

### **4.6.1. Introduction**

Employment relations in the Korean banking industry have traditionally been based on pay and promotion linked to length of service, and the presumption of lifetime employment with the one organization. In addition, the enterprise union network has supported these approaches as they have led to stable industrial relations between employers and their staff. However, extensive and rapid restructuring within the banking sector since 1997 has destabilized an industrial relations environment based on symbiosis. The relationship has become much more hostile with (seemingly) continuous labour disputes as unions have fought to protect employees' jobs and conditions. In short, a traditionally quiet workforce, facing serious employment insecurity, shed its image of moderation and shifted to militant one.

This section looks at the changes in industrial relations between trade unions and employers, and collective bargaining between them, in the banking sector as a result of restructuring.

### **4.6.2. Trade unions**

#### **4.6.2.1. Organization of trade unions**

In response to the massive restructuring, previous moderate bank unions went on strikes to protect employees and changed their organizational form from enterprise unions to an industrial union, the Korean Financial Industry Union (KFIU), in order to strengthen their solidarity. The KFIU represents employees from 35 institutions, 14 retail banks and 21 other financial institutions, including special banks. In 2003, the total number of members was 79,820 (53,719 retail banks worker and 26,101 others). Of these, 56,039 (70.04 percent) were male and 23,781 (29.96 percent) were female. At the time, the KFIU had 35 branches (i.e. one at each organization from which it draws its members) and approximately 6,000 sub-branches. There were 302 full-time officers (32 at headquarters and 270 at branches) working for the union. The union's density was 58.1

percent (79,820/136,812). The form of collective bargaining was (and still is) a multi-employers bargaining between the KFIU and a federation of employers (Table 4-28).

At its peak, in 1992, the Korea Confederation of Financial Unions (an earlier incarnation of the KFIU) had been composed of 171 local unions, representing a total membership of 139,206 financial sector workers. However, due to the restructuring of financial institutions precipitated by the Asian financial crisis, the number of members rapidly decreased from 127,507 in 1997 to 77,399 in 2002 (Table 4-29), mainly because the number of employees actually working in the banking sector decreased sharply. During the five years, 1997-2002, the number of regular workers employed in retail banks decreased by 40 percent, from 113,994, in 1997, to 66,881, in 2002 (Table 4-10).

Almost all retail banks in Korea are unionized and all workers below managerial level are entitled to become union members. Virtually all regular workers are union members, but irregular workers generally do not join the union. Before the financial crisis, each individual bank's enterprise union bargained separately with their management. Members voted to select their own union leaders at the company level while also holding membership in the confederation of bank unions.

In response to the massive restructuring by banks following the 1997 crisis, bank unions were reorganized. In 2000, a united financial industry union, the KFIU was formed. The degree of autonomy experienced by enterprise unions was replaced by a more collective response to issues affecting employment as the KFIU began to engage in bargaining with representatives of bank employers at an industry level.

By July 2002 the union density of all employees in the retail banks was 60 percent (of a total workforce of 89,832, 53,975 were union members); the union density of regular employees in the retail banks was 80.7 percent (i.e. of the 66,880 regular employees 53,975 were union members) (Table 4-30). However, almost all irregular employees did not join the union although they were eligible to do so. The figure of 60 percent represented a decline in union density, chiefly attributable to the decrease in number of regular staff and increase in number of irregular employees; in April 1998, before the restructuring began, 69.9 percent of bank employees had been union members. Nevertheless, the figure of 60 percent union density in the retail banking sector is still quite high compared with the total union density in Korea, 12 percent in 2002 (Table 4-

31). It is for this reason that the organizational culture in banks is bureaucratic, and that the organizations themselves have relatively large workforces (Blackburn, 1967; Sturmthal, 1966).

As the number of irregular employees in the sector increased rapidly, the KFIU, on its establishment in 2000, sought to include them. Membership comprised "all employees in the financial industry, employees sacked as a result of union activities, employees dismissed because of banks' management decisions, people who have worked in the financial industry, and people who have certificates related to finance" (Kong, 2002). In other words, almost all people working, or who have worked, in the financial (or related) industry were eligible for union membership.

However, in reality, almost all irregular employees still cannot join the union. The main reason is that bank unions still hesitate to organize them because bank management dislikes it, and unions are not confident in representing those who are working under different working conditions. For example, Hyun Dai Automobile Trade union, a very strong union, has not joined the Korea Metal Industrial Union because of the problem regarding the organization of irregular employees (the former opposes the organizing of irregular workers while the latter is in favour of it). Therefore, irregular employees cannot join the union although they want to (KFIU, 2003). Accordingly, the KFIU created an independent branch for irregular employees in 2004, and thus began to organize them at an industrial level (KFIU, 2004).

Looking at the operation of the KFIU, the executives (at the national level) are elected by direct vote of all members every three years; executives of union branches are also elected by each branch's members every three years. The membership fee is one per cent of each member's basic salary (Kong, 2002). In 2003, there were 302 full-time officials working for the union (Table 4-28). The reason that so many full-time officials are able to work for the trade union is derived from a unique tradition of the Korean enterprise union system. Under that system, the collective bargaining agreement between each company and its trade union stipulated that companies pay full-time union officials. As the Government cultivated the enterprise union system in order to block political activities of trade unions in the past, the Government encouraged management to pay for full-time trade union officials in the belief that it weakened the union capacity for autonomous development. However, since the great union democratic movement of

1987, the presence of so many full-time officials has not only helped the union to grow, but, because of the power of the union, the system of officials' salaries being paid by the firm, not the union, still exists<sup>29</sup>.

The KFIU is a member of the Federation of Korean Trade Unions (FKTU), a national centre of moderate trade unions. According to labour legislation, the KFIU can mandate the right of collective bargaining to FKTU in an emergency situation.

#### **4.6.2.2. Organizational structure and democracy in the union**

##### **4.6.2.2.1. Organizational structure of the KFIU**

###### **National Office**

Elected union officers, such as the President, Vice-Presidents, General Secretary, and other executive officers (appointed by the president), work at the National Office. They have responsibility for all kinds of union business as well as being the senior managers of the organization. They carry out the National Congress's (NC) decisions and mandates. The National Office has several departments, for organizing, rule-making, policy-making, education, public information, general affairs, and international affairs. Their role is to make union rules and policies according to decisions made at the NC, to organize or support labour actions, to disseminate the union's knowledge to members (i.e. OL), and to deliver information to members via union newspapers and its website. These departments are the main actors with respect to the institutionalization of OL in the union.

In 2003, the number of officers in the National Office was 32. Four of these were employed permanently by the union at the National Office, while the other 28 were dispatched from branches. In accordance with the CBA the latter receive their salaries from their companies.

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<sup>29</sup> However, as a result of a revision of labour law in 1997, employers will no longer pay for full-time union officers from 1 January 2010.

## **National Congress (NC)**

Like all trade unions, the KFIU belongs to its members. In particular terms, this expresses itself through the union's annual Congress. Each year, the union brings together about 240 delegates from around the country; any member of the union can become a delegate (KFIU, 2003). According to the KFIU's rules, the NC is composed of representatives who are elected by members at branches. Every branch can elect at least one representative. In cases in which the number of members is below 100 it can elect one representative; branches are allowed to elect one extra representative for each additional 300 members (thus two representatives if there are between 100 and 400 members, three representatives if the branch has between 400 and 700 members, etc). The total number of representatives in 2003 was 243; at least 75 percent of these representatives attended the annual congress in 2001, 2002 and 2003 (according to the KFIU activity reports of those years). Their tenure is one year.

A regular NC is called by the President of the union before the end of the fiscal year. He/she has to notify union members of the NC seven days in advance, providing details of date, venue, and an agenda. The regular NC usually deals with general union business. An irregular NC is called whenever the President of the union decides one is needed or when more than one-third of the representatives, because of a specific issue (or issues), request that one be held. A NC addresses the following matters: 1. the introduction and modification of bylaws; 2. the election or discharge of union officials; 3. collective bargaining; 4. budgets or closing; 5. establishment, admission, and withdrawal of an associated organization; 6. merger, division, or dissolution; 7. structural changes; 8. election of two auditors. 9. other important matters.

According to labour law, a NC shall make general resolutions by the affirmative vote of a majority of all members who are present. Resolutions related to the introduction and modification of bylaws, the discharge of elected union officials, and merger, division, dissolution and structural change of a trade union shall be passed by the affirmative vote of more than two-thirds of the members who are present. (A majority of all members must be present in the vote). Resolutions regarding the establishment and modification of union bylaws or the election and discharge of elected union officials shall be made by direct, secret, and unsigned ballot. The NC therefore is an important place for the

integration of OL because representatives can make rules and decisions required by the rank-and-file (Figure 6-4).

### **Central Committee (CC)**

The CC is composed of executive members of the National Office, the presidents of branches, and other full-time officers of branches elected to the Committee. According to the union rules, in cases in which the number of union members at a branch is more than 1,000 it can elect another member of the CC in addition to the branch president. The number of additional members depends on the size of the branch; for each 2,000 additional members one more can be elected to the CC (thus, two representatives if there are between 1,000 and 3,000 members, three members if there are between 3,000 and 5,000 members, etc). The total number of CC members in 2003 was 94. The CC is called to meet whenever the President of the KFIU decides it is needed or when a majority of CC members request that it meet.

The CC is responsible for carrying out the policies agreed at the National Congress and for the efficient administration of the union. The CC also deals with issues of the joining and withdrawal of membership, and the rewarding and disciplining of members. In addition, the CC deals with all kinds of urgent and important union issues as the members of the CC can be summoned quickly and are able to execute practical decisions at both the headquarters and individual branches. The members of the CC therefore possess real power within the union. Thus, they are very important actors in the integration and institutionalization of OL in the union (Figure 6-4).

### **Union Branch**

The union branch is the first point of contact for the rank-and-file member, providing him/her with an opportunity to participate in the government and administration of the union (Flanders, 1972: 50). A union branch is established at a firm (or bank) which has a single employer. Within the KFIU, branches range in size from a minimum of 42 (in the Foreign Exchange Brokerage) to as many as 15,000 (in the Kook Min Bank). Every branch has an organizational structure, which usually consists of a Representative Congress (RC), an Executive Committee (EC), and sub-branches. Membership participation at branch meetings is quite high because branches continue to operate very much like enterprise unions. Each branch has a President, a Secretary, an Auditor, and other full-time officers. As with the KFIU executives (President, General Secretary,

vice-Presidents, and Auditors) all branch executives are elected every three years. In the workplace (i.e. the actual branch), there are sub-branches with a chief (a kind of shop steward) who is directly elected by union members. The branch also becomes an important actor in the integration and institutionalization of OL within the union (Figure 6-4). The branch endeavours to integrate the demands of members within the union at the NC or the CC; it also institutionalizes the union's policies and information (for the members) through the branch's organizational structures.

#### **4.6.2.2.2. Communication (or learning) process**

Communication in the KFIU between the rank-and-file and union officials progresses through various parts of the organizational structures, such as branches, the NC, the CC, and the NO. The processes of communication are interpreting, integrating, institutionalizing, and intuiting. Firstly, the rank-and-file share and correct (or interpret) their knowledge and views with each other through dialogue and meetings within the branch or by communication with union officers (e.g. via the union homepage). Secondly, representatives of the branch and union officers of the NO integrate the knowledge and views (or demands) of the union through the NC or the CC. Thirdly, the NO institutionalizes the decisions made at the NC or the CC in organizational structures through rule-making, policy-making, establishment of education courses and systems of information delivery. Lastly, information delivery via the union newspapers or homepage facilitates the intuiting of new information by the rank-and-file (Figure 6-4). In short, the processes of communication within the union is identical to the learning processes in an organization argued by Crossan et al. (1999; Section 6.3.3).

An elected officer of KFIU summarizes the general learning processes in the following words:

The preparation of policy and decisions are made through various meetings and processes between union officials in the NO, full-time officers in branch offices and the rank-and-file. First, officers in BOs [branch offices] collect members' opinions through meetings or surveys. Secondly, officers in the policy-making department draft a strategy or policy after meetings or seminars between officers in the NO and in the BOs. Thirdly, officers in the NO and chiefs of the BOs decide on strategies or policies at the CC after discussions through seminars. Fourthly, the NO informs the members of the strategies or policies through union newspapers and/or their homepage and/or education forums. Lastly, in cases of important issues such as strikes, the President of the union calls the NC. He/she and representatives discuss the issue(s), and then take a vote to decide the preferred course of action.

In addition, whenever the union needs assistance from professionals (e.g. academics, lawyers, labour experts) to decide on policy alternatives (e.g. against the Government's policy, in response to a lawsuit, on a social issue), the union entrusts projects to them and then organizes seminars or conferences at which union officers in the BOs and the rank-and-file can participate.

In the preparation and progress of these processes, the departments of policy-making and education and publicity play important roles. In order to improve their performances, the KFIU has employed experts for both departments (interviewed by the author on 15 November 2005).

The following comments from a sub-branch chief illustrate the processes of the interpretation of information and integration at the union branch level.

Our union sub-branch is composed of 17 members. My role as the chief of the sub-branch is firstly to hold a monthly meeting. Although the meeting is held regularly (on the evening of the second Friday of the month) other, irregular, meetings are called if there is an emerging issue. We also often continue talking at the restaurant after the formal meeting. I have to summarize the results of the meeting and report those to our branch office. Secondly, I distribute the union's newspapers to members as well as leave copies in the refectory in order for all employees to be able to see them at any time. Thirdly, I participate in our union branch meetings. Those are the RC, meetings of the chiefs of sub-branches, and training/education for the chiefs of sub-branches. I (formally) deliver my members' opinions to these meetings. Fourthly, I sometimes meet the chief of the branch of the bank in order to deliver members' views regarding working conditions or predicaments of business; together, we try to find solutions. Lastly, we hold a picnic or an athletic meeting annually with other local sub-branches.

As I am not a full-time union officer I can only perform my role as chief of sub-branch when I can make time. In addition, because members generally do not want to take the job, senior members take the job in turn for one year (A sub-branch chief, interviewed by the author on 23 November 2005).

#### **4.6.2.2.3. Democracy in the union**

In order to look at democracy in the union it is necessary to review in detail the aspects of influence, communication, representation, and involvement in unions through a case study of a branch. Thus, this section considers one such branch (CHBU) of the KFIU.

## **Mechanism of influence and communication**

Members of the CHBU<sup>30</sup> learn union principles and develop an understanding of union democracy through joining a union's education courses, participating in sub-branch meetings and events, participating in branch and union's meetings and events (such as elections of union officials), voting for (or against) strikes, attending rallies, becoming involved in labour disputes, consulting the union's computer communication network (or union homepage), and by observing the labour disputes of other unions.

First, as required by the CBA, union branches practise three kinds of education. These are: 1. new employees receive a three-hour education course from the union, in which they are generally told about union history, union principles, and labour law; 2. four-day education courses given by the bank which will also include two hours of education from unions, and; 3. the chiefs of sub-branches (and exemplary members and women members) also get two paid working days every year during which they receive education from union branches.

Secondly, a union sub-branch meets at least once a quarter; here, members of the sub-branch talk of union matters. The sub-branch also holds events for members, such as picnics and athletic meetings, at which members can learn and discuss union matters.

Thirdly, union members learn more about unions and develop an understanding of union democracy by participating in the elections of union officials, voting for/against strikes and collective bargaining agreements, and participating in meetings, conferences, rallies and strikes. Informally, a small number of union members join particular political factions, and here they talk and learn more detail, albeit with a factional perspective. They often participate in election campaigns and propose motions at representative conferences in order to ensure that their views are heard. According to the results of a survey (KFIU, 2004b)<sup>31</sup>, full-time officers of the KFIU stated that political factions exist within the union but they are organized on the basis of personal relationships rather than for political reasons.

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<sup>30</sup> Cho Hung Bank Union (a branch of the KFIU): some facts. The union has 5,445 members (out of a total of 6,629 employees), 500 sub-branches, and 16 full-time officers (KFIU, 2003).

<sup>31</sup> Of a total of 302 full-time officers in the KFIU (32 at headquarters and 270 in branches), 106 answered the survey.

Fourthly, union members learn about unions through computer communication networks, Local Area Networks (LANs), (union branches use communication networks operated by firms, one of the conditions of the CBA) or union homepages (both the KFIU's and the union branch's, in this case, the CHBU's). Members are able to read details of all union activities, as well as communicate with full-time union officials or other members by these computer networks.

Fifthly, union branches and the KFIU publish and distribute monthly newspapers to all members; they also send newsflashes, prompt reports, news releases, and statements by fax to the chiefs of sub-branches. Information can thus be circulated to members quickly. For example, the CHB branch publishes and distributes a newspaper entitled "Morning Sunshine" at least once a month to members, and sends a newsflash entitled "Headline News" and statements to the chiefs of sub-branches (at any time) by fax. The KFIU also distributes a monthly newspaper entitled "Financial Labour News" to members as well as also sending newsflashes and fax statements to the chiefs of sub-branches. Furthermore, union branches and the KFIU occasionally publish books for the education of members; these are sent to the chiefs of sub-branches for display. Members are thus able to read these at any time.

Lastly, members learn from the labour disputes of other unions and the media. The media generally report union principles in detail whenever big labour disputes (such as strikes) occur around the country. These reports constitute very good education sources for union members. Through these processes, union members can learn about trade unions and develop an understanding of union democracy. These are the formal and informal mechanisms of communication and their influence operates both upwards and downwards in the union.

### **Representation and involvement**

In order to examine learning processes in unions, we need to look at the organizational structures and the extent of representation and involvement at the branch level, the level at which a rank-and-file member is, or is not, provided with an opportunity to participate in the government and administration of the union (Flanders, 1972: 50). We will continue to use the CHBU as an example. First, the CHBU is structured in such a way as to enable members' opinions to be expressed democratically and to carry out union business efficiently. The committees or forums which facilitate this democracy

and efficiency are the Representative Congress (RC)<sup>32</sup>, the Executive Committee (EC)<sup>33</sup>, the Full-Time Officer Committee (FOC)<sup>34</sup>, and the sub-branch (SB)<sup>35</sup>. Secondly, the views of members are promoted by their representatives elected at sub-branches, the elected chiefs of sub-branches, and by the members of committees representing

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<sup>32</sup> The RC: The Representative Congress (RC) is composed of representatives who are elected by members at sub-branches. According to branch rules, a sub-branch can elect one representative for each 50 members. The total number of representatives in 2004 was 400. Its function is similar to that of the NC.

<sup>33</sup> The EC: The Executive Committee (EC) is composed of the President and the Vice-Presidents of the CHBU, and other executives who take charge of departments in the CHBU office. The executives, only some of whom are full-time officers, are appointed by the President of the CHBU. The number of members of the EC in 2004 was 30. Its function is similar to that of the CC.

<sup>34</sup> The FOC: The Full-Time Officer Committee (FOC) is composed of the president and vice-presidents (elected officers) and other appointed full-time officers of the CHBU. The number of FOC members in 2004 was 20. The CHBU has not employed union officers. 2. They carry out the EC's decisions and mandates, and support the president of the branch on collective bargaining, education, research, and general affairs.

<sup>35</sup> The SB: The sub-branch (SB) is the most important point of contact for rank-and-file members as it is here that they meet every day, and talk of union and firm affairs. Each union branch establishes union sub-branches at all departments and branches of the bank. Each sub-union branch operates according to the union's operation rules for sub-branches. For example, the CHBU regulations are as follows: 1. the branch establishes a sub-branch at each workplace (bank branch, department) that is composed of members who work there; 2. each sub-branch has to elect its chief and vice-chief, and its representatives who will be sent to the representative conference (for branches). A sub-branch can elect one representative for each 50 members; 3. sub-branches decide the proposals (or motions) to be submitted to the union branch; 4. sub-branches carry out the decisions of the union branch; 5. sub-branches deal with the matters of the sub-branch operation; 6. each sub-branch has to have regular meetings. Irregular meetings can also be called in cases in which the chief of the sub-branch or more than one-third of the members believe that such a meeting is required; 7. the chief of the sub-branch has to understand completely the rules and regulations of the trade union and to manage the following: sub-branch activities, documents of sub-branch meetings, reports of union activities, official documents of the trade union, and seals.

The branch rulebook states that the provision of publicity activity (information delivery) at the sub-branch is the responsibility of the sub-branch chief who is required to promote the unification of members through publicity. The detail outlined in the rulebook is as follows:

The unique source of union power is its large membership. However, although the union has a large number of members, if the union has no solidarity it is not a union but the expression of personal will or action. Therefore, the union has to try to lead its members in the direction of collective thoughts and collective actions. To do this, the first condition is the quick and accurate delivery of information. To achieve this, the chief of the sub-branch has to do employ the following three methods; firstly, he/she has to present the summary of sub-branch activities and trade union newspapers by dissemination in the workplace (bank branch) before/after working hours. Secondly, he/she has to put notices of trade union's official documents and newspapers on noticeboards in the workplace, and to display the union's activity reports, meeting reports and education materials in places, such as the refectory, where members can see them easily. Thirdly, he/she has to circulate the trade union's official documents to all members after their release.

The branch rulebook also regulates the procedures of sub-branch meetings as follows. First, the chief of the sub-branch has to inform and prepare the meeting in advance in the following manner for it to proceed effectively: 1. he/she has to inform members in advance of the date, the venue, and the issues to be discussed on noticeboards, by broadcasting, and by circulation; 2. he/she has to promote sufficient discussion and mediation between members regarding the main issues before the meeting; 3. he/she has to prepare a memo of the proceedings (an agenda, discussion papers, etc) of the meeting in advance in order to prevent confusion arising at the meeting. Secondly, he/she has to try to reflect (and influence) the opinions of members and to report the results as follows: 1. the chief of the sub-branch has to submit to the chief of the union branch the decisions (or motions) that members wish to suggest to the trade union; 2. he/she has to submit to the chief of the workplace (or bank branch) the decisions that members decided to suggest to the chief of the workplace, and endeavour to persuade him/her to consider them; 3. he/she has to report to the members the results of the proceedings as soon as possible.

disadvantaged groups, such as, for example, the Women's Committee (WC)<sup>36</sup> and the Craft Committee<sup>37</sup>. Lastly, the involvement of rank-and-file members is realized by their participation in sub-branch meetings, union education, and the opportunity to vote for the President of the branch, for the representative and chief of the sub-branch, and on decisions on whether or not to take industrial action, such as going on strike.

As a result of these various and detailed activities of involvement and representation, OL between leaders and the rank-and-file in CHBU is executed quite well. One union official<sup>38</sup> of CHBU reported that the level of membership participation at sub-branch meetings always exceeds 50 percent. Van de Vall (1970: 105) argues that it is necessary that at least 20 percent of the total membership should attend union meetings if the organization is to hold firmly together. By this standard, we can see that there exists a strong relationship between leaders and the rank-and-file at the CHBU.

### **Discussion of Union democracy**

Union democracy refers to the participation of trade union members in the government of their trade unions. Trade unions are membership organizations that are formally democratic and allow for member participation and control of policy-making through a variety of mechanisms. "Unionists themselves, in defining the democratic quality of their established procedures, cite the practices governed by majority vote of the members" (Cook, 1964:9).

Regalia (1988: 361) argues that "unions are organizations founded on consent, constrained, even, to preserve the consent of the represented or at least to attempt to contain manifest dissent. Unions are organizations in which the democratic requirement of responsibility and receptiveness to rank-and-file preferences is also a condition for survival itself". Thus, "unions are organizations which are constrained to be democratic, if we mean by this to continuously take into account the opinions and preferences of the represented".

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<sup>36</sup> The WC is composed of the President of the branch and woman members (no more than 15 may be on the committee). The WC deals with issues related to the rights, working conditions, and welfare of women members.

<sup>37</sup> The Craft Committee is composed of members who are employed in particular bank jobs, such as security, drivers, and tellers. The CC pursues the improvement of rights and working conditions of the members in discussions with union officers.

<sup>38</sup> From an interview with a full-time officer by the author, on 25 November 2005.

Furthermore, supporters of union democracy make a plea that the political realities of unions should be taken into account in formulating a theory of democracy. They call attention to unions' instruments of democracy, to constitutionally established mechanisms – the union meeting, the convention, the referendum – constituted on a representative basis and set up through periodic secret elections (whereby the leadership can be held to account and aggrieved members get due process including adjudication by officials or bodies who are not involved in the dispute) (Barbash, 1956, 1967).

However, many researchers have argued that union democracy suffers from many weaknesses. Their criticisms have highlighted the problems of the rights of individuals and minority or opposition groups, of the separation of powers implied in an independent judiciary, of a detailed prescription for due process, of motivations and opportunities for members participation not only by attendance at union meetings but in decision making, and of the powers exercised by the union's leaders (Cook, 1964). Particularly, Michels's theory of 'the iron law of oligarchy' (1959) pointed to the virtual irremovability of elected leaders, the effective control of policy by full-time officials, and the minimal involvement of rank-and-file members in the formal channels of internal democracy. However, the authors of many more recent countervailing (empirical) studies argue that "Michels presented an overdetermined model of oligarchic development" (Sayles and Strauss, 1953: Coleman, 1956; Clegg, 1970; Fox, 1971; Hyman, 1971: 28).

Other writers (also employing empirical data) argue that democracy, as a system of organized decision forming in which leaders are to some degree responsive to rank members, operates even with a comparatively low level of participation (Katz and Lazarsfeld, 1955; Lipset et al., 1956; Van de Vall, 1970: 153). They demonstrate that "democracy and oligarchy constitute only a normative polarity. Their findings show it to be at variance with reality, since most democratic organizations belong to an intermediate form. In the empirical polyarchy, neither the members nor the leaders alone are decisive". Instead, by means of the democratic rules, active members and leaders are able to achieve a balance of power. In other words, "the polyarchic organization differs from the oligarchic one (one in which there are powerful leaders and passive memberships) because there is a third group, the active participants. By their two-way communication within the organization, they act as its democratic core. The larger and the more active this third group the closer the organizational approaches

the ideal of the democratic theorists. The smaller its membership and strength, the more the organization moves toward the oligarchic pole" (Van de Vall, 1970: 153-4).

However, to evaluate union democracy fully, a critical ideological requirement has to be added to these instruments, namely, that democracy is not simply the mechanics of determining consensus. Democracy is necessarily related to the values for which consensus is sought. If the thrust of the union is generally on the side of democratic values, both in society and within its own institution, then its actions are so imbued with democratic values that we may say the union is democratic. More importantly, the satisfying criterion about democracy in the union is not so much the instruments but the existence of a climate that makes the utilization of the instruments possible. Such a climate is made up of two elements, intent on the part of leadership to abide by democratic principles in the management of union affairs, and a will to democracy on the part of the rank-and-file members. Thus, if both leaders and members accept democracy as a desirable standard of government, although they may not conduct all their affairs by the standards of a democratic model, they will be constrained in the purpose and use to which the regulation of authority is put by making it conform to constitutional due process (Cook, 1964: 9-18).

Unions have recently faced many tough challenges to represent and manage more appropriately members' heterogeneous and contradictory interests, a consequence of an increase in the membership spectrum (e.g. white and blue-collar workers, regular and irregular workers). Thus, unions now need more dialogical democracy ('interactive democracy'), pursuing unity through interaction and conflict after a lengthy but constructive dialogue. In other words, 'the trade-off between interactive and conflictive strategies should replace traditional monological (instrumental) decision orientation' (Jahn, 1988: 339; Lewin, 1980).

On the other hand, a blind emphasis on union democracy focusing on decentralization of decision-making toward at the enterprise level without strategic orientation (e.g. the improvement of strategic capacity and solidarity through strengthening dialogical democracy) by union leadership is more likely to weaken actual union capacity to pursue democracy based on unions' original organizational purposes (such as the improvement of workers' political and economic interests and industrial democracy through membership participation). For example, in France, attempts to modernize

employment relations through stimulating company-level agreements paradoxically led to further membership decline and the erosion of unions' workplace influence (Daley, 1999; Hyman, 2003: 429). In Korea and Japan, countries which have kept the enterprise union system, unions have remained faithful to procedural and substantial democracy between leadership and membership at the individual enterprise level. However, the unions have suffered from weak leadership, with leaders lacking the experience and knowledge to solve problems at the industrial and national level. Furthermore, even though they have remained democratic organizations (regarding the processes of decision-making), the unions have been turning into company unions<sup>39</sup> as states and employers dominate and substantially control labour issues at the macro and micro levels. Fragmented unions lack the strategic capacity to respond effectively to the problems (Hyman, 2003: 429).

Moreover, many unionists argue that unions have recently been forced to produce stronger leaders and become more professional in order to be able to respond to attacks from globalized employers and neo-liberal governments' anti-labour policies. For example, Korean unions have pursued centralization of decision-making by changing union form from enterprise unions to industrial unions (see Section), while Western unions have pursued amalgamations. Heery and Kelly (1994: 15) note that 'the relationship between leadership and their membership is seen as an effect of a determining eternal variable (a kind of 'contingency theory')). In other words, the structure of union government varies according to the structure of collective bargaining, which is itself a function of the strategic choices of governments and employers'.

Cook (1963: 18) mentions that in any discussion of democracy, one must keep in mind that democracy is a process and a goal rather than an absolute body of procedures and rights. Thus, if democracy is a superior form of government it should be preferred in practice where it is possible (Kerr, 1960: 1).

#### **4.6.2.2.4. Influence of the Internet on communication**

The influence of the Internet on communication has increased rapidly as the Internet has come to play an increasingly large part in people's lives. All Korean unions have their

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<sup>39</sup> It is because unions at enterprise level have a strong tendency to assume that they have common interests with employers in boosting productivity and competitiveness in the competing market conditions. Thus, the unions generally pursue moderate unionism as long as employers do not show antagonism toward them (or their self-interests rather than total labour interests when the two collide).

own websites, and their use in union communications, activities and services is already very high. The unions' input to Internet communications has been fairly significant in the past few years. Members' questions are answered and the unions contact them regularly by email via firms' LANs or the unions' homepages.

Email offers the most real-time and interactive link between the union and its members. Sending a personal email message is a way to strengthen member commitment and to emphasize a member's significance to his/her own union. It is also a way to increase participation and to communicate (and confirm) the union's activities and decisions. Indeed, the KFIU conducted a leadership election by Internet vote in 2005, although, as it turned out, that particular event was hampered by a technical problem. In addition to communication between the union and members the Internet also allows members to communicate with each other.

However, there are diverse expectations among members regarding communication channels. Some members prefer active email communication, others text messages, and others prefer to receive information via traditional newspapers or magazines. Some expect all of these means to be used. Therefore, newspapers and magazines still have an important role in the organizations' communications even though Internet communication is speedy and effective for interaction and the storage of information. It is difficult to offer a general or an overall picture of issues and subjects on the Internet. A newspaper or magazine can perform this function more adequately, giving background information and stating the arguments for or against. It can also raise subjects, and direct members to the network for further information and discussion (Aalto-Matturi, 2005: 480).

Korea has rapidly become a mobile phone society (70 percent of the population have a mobile phone) and the Internet has become a part of everyday life for people; It is also the number one country in the world for the subscription rate to hyper-speed Internet.<sup>40</sup> Therefore, the main method of information delivery has become via the Internet (possible, of course, also by mobile phone). However, the introduction of new network-based services does not alone guarantee that members will increase their level of participation in their unions. The trade union still needs to have the energy to exploit the

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<sup>40</sup> In 2004, 76.5 percent of all Korean households subscribed to hyper-speed Internet (Digital Times, 12 January 2004).

potential benefits of that network. The network should be a place not only for acquiring information but also for community, social interaction, networking, socializing, deliberation, influence, participation, leisure time, and friendships (Ibid: 480).

#### **4.6.3. Employers**

##### **4.6.3.1. From paternalism to restructuring**

Due to the Government's restructuring of the banking sector, employers actively pursued labour flexibility through layoffs, outsourcing and the replacement of regular employees with irregular employees. Some employers perceived the financial crisis as an opportunity to eliminate redundant aspects of labour force without strong resistance.

In looking back on banks' policies on labour, it can be seen that employers were influenced by certain long-standing values broadly encapsulated in the idea of a paternalistic employment relationship (in which banks looked after the interests of their staff), and that their decisions were not strictly determined by the logic of the commercial environment. Rather, labour management policies stemmed from both an effort to control labour costs and the desire to sustain commitment and motivation. Accordingly, the identity of employer and employee was fostered by job security and a reliance on internal promotion systems.

The objectives of the labour policies of the bank employers were to maintain a level of commitment to organizational aims, to minimize the potential for conflicts of interests, to generate motivation for the execution of jobs, and to insulate staff from the effects of the external labour market (Morris, 1986).

Since the early 1990s, the prime change the banks have faced is one of increasing competition due to technological innovations and liberalizing or deregulation policies pursued by the Government. The changes caused by these factors mean new forms of money transmission, deposit taking and lending can be developed without extensive and labour-intensive branch systems, providing competitors with the potential for significant cost advantages. In marketing terms, a clearer segmentation of customer groups has replaced the general growth policies of the 1980s. These trends are not simply the result

of a more mature product market but reflect a more intensively commercial approach in the face of increased competition.

Therefore, employers' labour policies have shifted rapidly from paternalism to the control of labour costs related to productivity. It has meant, simply, the shedding of labour. It is no surprise therefore that industrial relations in the banking industry changed for the worse after the 1997 financial crisis, leading to the strikes discussed in Chapter 5.

#### **4.6.3.2. Change of management practices from stability to performance**

Almost all Chief Executives of Korean banks used to be appointed by the Government (which meant also that the Government had significant influence over senior managerial appointments). The reason for this is that the autonomy of banks was restricted by government regulations, the so-called Positive System; prohibition in bulk, but permission of exceptions. It meant that all kinds of bank activities required governmental permission (Lee, 2001). On the other hand, the Government protected banks whenever they had any difficulties. In return, banks assisted in the carrying-out of government economic policies. As Korean banking law stood the Government had substantial supervisory powers. Accordingly, Korean banks had a role as public service institutions. Unsurprisingly, bank management was generally conservative.

Therefore, banks, whose success was measured as much, if not more, by the degree to which they did as the Government bid rather than their actual business performance, tended to avoid confrontation in industrial relations matters, preferring to compromise peacefully with trade unions. The political pressure on management to maintain stable relations with the unions enabled the union to negotiate for improved working conditions even though substantial strike action (by bank employees) was forbidden by law because the bank industry was defined as a public service (Section 4.6.5.2). However, since 1997, the Government's bank policies have been revised completely. It has forced the banks to make extensive structural adjustments; these have included the closure of bankrupt banks, M&A, and mass reduction of employment. Government-owned banks were also privatized: The Government's assessment of what constituted successful bank management also shifted, to one based much more strongly on performance.

Methods of appointments of bank management, the operation of banks, and industrial relations have undergone remarkable change. First, as the reform of banking sector has progressed since 1998, a commission in each bank, comprising financial experts and representatives of shareholders, has been appointed to select executives on the basis of ability rather than seniority or closeness to the Government. Secondly, the emphasis on performance in a competitive business environment has led to significant readjustments of the formerly conservative organizational structure. Thirdly, industrial relations in the banking sector have become less conciliatory (in which unions and management recognized their interdependence), and more confrontational. The principal point of tension has been the series of (seemingly) endless structural adjustments which management has viewed as necessary to performance improvement but which trade unions have perceived as a threat to employment security.

#### **4.6.3.3. Shift of management paradigm in employment relations**

Changes of market conditions in banking have propelled employers into adopting new paradigms of management. First, the management approach to industrial relations has become increasingly business-led. The key decisions in industrial relations must have regard to the business strategy.

Secondly, there is now an emphasis on flexibility. Management needs to develop the capacity to respond more quickly to business conditions. Management generally uses three kinds of flexibility, numerical flexibility, time flexibility, and financial flexibility. Numerical flexibility refers to the increase of the amount of subcontracting as well as temporary and part-time working. Time flexibility refers to the free arrangement of working hours of each worker, involving, for instance, the use of minimum-maximum hour contracts, which predefine the range of hours to be worked within the day, week, month, or year. Financial flexibility refers to changes of pay, from the pay for the job concept to performance-related pay (Jung, 2000: 33).

Thirdly, management, especially in private banks, no longer tends to see collective bargaining with trade unions as the indispensable factor of the system, and is instead placing more emphasis on the direct relationship with individual employees. This makes up the essence of the human resource management approach. In other words, there has been a more explicit effort to manage communications with staff. This reflects a paradox in that, as the business environment becomes more competitive the need for

staff co-operation and commitment increases, yet uncertainty is more likely as the old assumptions about job security and career progression are eroded (You and Park, 2000: 58).

This has not led to a reduction in union consultation, but is rather a parallel development. Consultation has been extended into such areas as the introduction of new technology, staffing levels, and appraisals. However, the issues have always been regarded as strictly within the managerial prerogative. Consultation can shade more easily into negotiation and in this sense the area of joint regulation has never been wider. Hence, the object of management strategy has not been to reduce trade union activity but to mould it within a general pattern of labour relations, which does not inhibit organization change, but rather makes the implementations of such change more predictable (Sisson and Marginson, 1995: 107).

Previously, in the principles of pay determination, employers incorporated a mixture of factors, including market considerations and concerns with fairness and morale. Further, they believed that bargaining should incorporate a degree of flexibility without being linked to corporate performance. However, competitive pressures have fed through the pay criteria favoured by employers, and the previous preoccupation with comparability in the labour market has been replaced by a more pronounced concern with the ability to pay.

The new bargaining criteria also arguably reflect an ideological shift, being designed to reinforce the identity of the employee with the organization, by seeing his/her fortunes as intimately linked with those of the bank rather than the broader industry trends. Hence, the argument goes that profitability, which is crucial to future expansion and is the best guarantee of employment, requires cost/wage constraint, as real profit levels are inadequate. Short-term employee benefits must be tempered in the interests of longer-term organizational prosperity. However, finance workers' consciousness in the banking sector has often become relatively more union-like as a result of the unintended collectivizing impact of the employers' policies of individualization, on pay in particular, because employers have often introduced unilaterally determined pay for performance (Thornley et al., 1997: 96).

#### **4.6.4. Government**

##### **4.6.4.1. From authoritarian labour policy to experiment of corporatism**

Since the national financial crisis, the Government, which used to be authoritarian in its industrial relations, has adopted corporatism. Due to the IMF's demands, the Government needed to pursue labour flexibility and the restructuring of industry (including the financial sector). The national financial crisis resulted in a crisis consciousness among the main actors (government, labour and employers), leading to the establishment of the Korea Tripartite Commission (KTC) comprising representatives of the three, previously hostile, groups. The resistance that was anticipated from labour and international organizations (such as ILO and OECD) prevented the Korean Government from relying on its traditional, authoritarian and oppressive labour policy when it imposed its economic restructuring. Consequently, it had to resort to a more consensual system of industrial relations.

In particular, the KTC has operated the Special Committee of Financial Restructuring (SCFR) in order to resolve issues related to the restructuring of the financial sector. However, the KTC has not functioned effectively since February 1999 because unions (KFIU and FKTU) and the Korean Employers Federation have repeatedly withdrawn from and rejoined it. Nevertheless, the Commission has played an important role in resolving big disputes between unions and the Government. For example, the Tripartite Commission played a role as a mediator between the KFIU and the Government whenever strikes in the financial sector occurred in 1998, 2000, and 2003 (see Section 3.6.4).

##### **4.6.4.2. Restructuring of the financial sector**

Due to the national financial crisis of 1997, the Korean Government received a bailout fund from the International Monetary Fund (IMF). The fund was conditional upon the restructuring of financial institutions, such as the closure of insolvent financial institutions, the restoration of financial soundness, and the opening of financial markets to foreign investors. Consequently, in 1998, the Government commenced the restructuring of financial industry in earnest (Table 4-10).

#### **4.6.5. Collective bargaining and labour disputes**

##### **4.6.5.1. Collective bargaining**

Until March 2000, under the enterprise union system, industrial relations matters had been negotiated at the individual bank level, between each bank's management and that bank's union. However, with the advent of an industrial union system (and the formation of an industrial union, the KFIU), collective bargaining has become a form of group negotiation (a form of multi-employer bargaining) between representatives of all banks and a union, which represents all employees in the industry. In 2002, for example, 26 Chief Executive Officers<sup>41</sup> and the same number of union representatives sat down at the negotiation table to discuss the collective bargaining agreement. However, this was an ineffective and time-wasting process because all 52 of the participants had to be in the same place at the same time. Since then, employers have recognized the need for an employers' organization that could represent all employers in collective bargaining negotiations. Employers nominated the Korean Federation of Banks (KFB) as that representative in 2003 (Kong, 2003).

Collective bargaining between the KFIU and employers has made progress pleasing to both groups since 2000. In October 2000, they signed a collective bargaining agreement that covered all employees in the banking industry. That agreement was supplemented in August 2001. The agreement, including the supplement, contains 108 articles of Basic Agreement, 11 articles of Employment Security Agreement, and seven articles related to a Bank Development Committee. In addition, they decided (in 2001) upon a wage increase in the banking industry of 7.4 percent + a. The "a" refers to the amount that each bank and union branch agrees is appropriate, based on that bank's circumstances. The two groups also agreed on a five-day working week, the first time that this had been introduced in Korea at the industry-level by a CBA. This was supported by the Government which wanted to introduce it to all industries, although there had been opposition from employers (from all industries).

There are several reasons why industrial negotiations in the banking sector have progressed so smoothly. First, bank management and trade unions have been settling

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<sup>41</sup>Fourteen retail banks and 12 other financial institutions

industrial relations matters by group negotiation<sup>42</sup> since the 1970s; the participants therefore have considerable experience with the process. Secondly, until the changes prompted by 1997's financial crisis, the wage structure and working conditions in the banking industry had remained virtually unchanged since the establishment of bank unions, in 1960. Thirdly, the banking industry has been regarded as a public service and almost all management appointments have been made by the Government. As mentioned earlier, this last factor had acted as a disincentive to managers who might otherwise have engaged in industrial conflicts. Lastly, employers have found it easier (if not always easy) to deal with the union's strong responses to restructuring of the bank industry by negotiating as part of a multi-employer group rather than as single banks (Kong, 2002).

Although centralized collective bargaining by the KFIU is now the main process in industrial relations discussions, local union branches still play a major role in wage negotiations through supplementary collective bargaining at the branch level. For example, in 2001, the KFIU and the KFB agreed upon a wage range, 7.4 percent + 'a' or 7.4 percent -'a', for all bank employees. However, the decision as to what the exact amount of "a" should be was decided by each individual bank and local union representatives as it was based upon the performance of that particular bank. In addition, bargaining over issues of working conditions and company welfare continues to take place between the local union branch and the management of each bank.

The new industrial bargaining process exposes several problems. As most negotiations now take place at industry level instead of individual bank level, the interest of members in union activities is decreasing. Furthermore, union branches are inclined to rely upon union headquarters even for the solution of trivial problems. Union branches are now less autonomous and have less responsibility for local matters (Kong, 2002).

The Trade Union and Labour Relations Adjustment Act (TULRAA) prescribes that the issues of collective bargaining have to be wages, working conditions, and other issues for the improvement of workers' social and economic status. However, issues related to trade union activity, such as the number of full-time union officials and their wages, are generally also included in collective bargaining negotiations. Managerial and personnel matters too, such as the participation of union representatives on, for instance, personnel

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<sup>42</sup> There have been two groups, one of nation-wide retail banks and another of regional retail banks.

management committees, are included in the collective bargaining process. TULRAA also stipulates that the valid period of a Collective Bargaining Agreement (CBA) cannot exceed two years. Accordingly, each CBA must be renewed at least once every two years.

#### **4.6.5.2. Labour disputes**

Until 1997, the Korean banking industry was a no-strike zone. Even though there had been strikes across almost all industries in 1987, the so-called great union revolution period, there had been none in the banking sector. The reasons for this were that the industrial relationship between employers and employees in the banking sector had been stable since 1960, and working conditions were (relative to many other industries) quite good. In addition, most banks had no specific, private owner because bank law prohibited any particular investor owning more than five percent of bank securities. The Government also chose the CEOs of banks, and their terms of service were generally short. Accordingly, due to political pressure and personal ambition, these CEOs sought to maintain a good relationship with trade unions. In other words, CEOs who wanted promotion to better positions in other financial institutions recognized the importance of a good reputation as a prudent manager whose banks were efficient and stable. The banking industry was also an oligopoly, and always received government protection. Management therefore did not need to (greatly) care about management performance while employees could enjoy lifetime job security and good working conditions.

Nevertheless, there were endless small disputes (which did not, however, result in strike action) in the banking sector, before 1997. In 1960, when trade unions were first established in the sector, there were several disputes between trade unions and management over collective bargaining agreements. There were also some conflicts (some deliberate) during this early period because the unions and management were establishing an industrial relationship for the first time (Kim, 1982).

Later, in 1987, when a great trade union revolution occurred in Korea, bank unions also took some 'light' industrial action, such as sit-ins, work-to-rule, and overtime bans, in order to improve working conditions. This period also presented the unions with a very good opportunity to reform previous collective bargaining agreements. However, since 1997, the industrial relations situation has changed completely. Bank unions have had no choice but, for the first times in their history, to take strike action in order to protect

employment security in the face of the Government's massive restructuring of the sector. There were four such strikes between 1998 and 2003 (for detailed discussion, see Chapter 5).

It was almost impossible for bank unions not to break the labour law when choosing strike action as Korean labour law actually prohibits strikes in the public service workplace. According to the Trade Union and Labour Relations Adjustment Act (TULRAA), unions in Korea must abide by the following legal processes before taking strike action. First, public services, such as banks<sup>43</sup>, must apply to the Labour Relations Commission (LRC) for mediation at least 15 days (ten days in the case of a general business; non public service) before they go on a strike. Secondly, the LRC mediation committee, which comprises three members (representatives of labour, management, and the general public), must draft a proposal, and attempt to persuade both parties to accept it. If both parties agree to it, the proposal will have the same legally binding status as a collective agreement. If either party refuses, however, the mediation process comes to a halt and industrial action can take place. Thirdly, the union must gain 'Yes' votes not from a majority of voters in the sector (or the bank(s)) as a whole, but from a majority of union members in the sector (or the bank(s)) at which the strike is proposed to take place.

Lastly, the Labour Minister can decide on emergency mediation in the case of a public service strike or the case that is more likely to endanger people's daily lives and national economy (e.g. a bank strike). If that second mediation fails, the mediation committee can send the case to an arbitration committee that can settle a dispute forcibly, regardless of the intentions of the concerned parties. In short, once the Labour Minister decides on emergency mediation the bank union cannot legally go on strike. Therefore, in the cases of the strikes organized as protests against the massive employee reduction consequent upon the forced structural adjustment in 1997 the unions had no choice but to break the law.

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<sup>43</sup> According to the revision of labour law, banking business transferred from a public service to a general business from 1 January 2001. Thus, the period of mediation decreased from 15 days to ten days.

## 4.7. Conclusion

One of the main reasons for the severity of the Korean financial crisis in 1997 was that there were serious structural problems in the financial sector. Accordingly, the Government instigated extensive restructuring of the sector. The main focuses of the restructuring programme were the establishment of financial soundness in the institutions and greater labour flexibility. As a consequence, many banks were closed and merged. Moreover, work organization and industrial relations were reviewed and restructured, as follows.

First, as banks changed their sales strategy from one of increasing market share to that of the pursuit of profitability, they reorganized their work by rationalization and new customization. These can be summarized as follows: 1. banks changed the form of organization from functional organization to divisional organization in order to strengthen the responsible management of executives and to promote competition between divisions for the increase of profit. This has made it very difficult for staff to move from division to division. In addition, each division tends to avoid recruiting new staff in order to reduce their cost ratio.

2. Banks divided branch business into both front business (i.e. generally, sales) and back business (i.e. processing work). Front business continued to be conducted in the branch, but back business was transferred to central office or call centres. Therefore, staff are now more likely to be specialists, not generalists. Of particular concern for some has been the deskilling of operators in the call centres. However, the situation is not so simple, as these operators are also required to undertake sales activity through phone and computer. 3. The processing business of call centres has become, through the use of new technologies, a new form of Taylorization. However, this New-Taylorism has caused problems, such as low trust and conflict between operators and management. As a result, there has been a high turnover of staff in call centres.

4. Banks now provide differentiated customer services according to the kind of customer and the degree to which he/she contributes to profits. For example, banks provide RM service for enterprise customers, PB service for superior personal customers, and fast one-stop service for general personal customers. The differentiated

customer services are a new development in customization. However, banks are losing the trust of a third group, general personal customers, who are experiencing worse service. 5. Banks now actively utilize new techniques, such as CRM and CSS, in order to analyze new business opportunities, and to provide faster and better customer services. However, the development of these new techniques requires huge investment. Accordingly, banks have to take the risk of suffering big losses.

6. The development of new technologies has enabled banks to utilize various service delivery channels, such as ATMs, EFTPOS, phone banking, Internet banking, and, more recently, mobile banking. The proliferation of service delivery channels has benefited the customer, who can now choose what is most convenient to him/her. However, these services require fewer bank staff. Furthermore, there is the problem of the security of some of these service delivery channels, thus increasing the banks' exposure to crime. Although rationalization and customization contributed to increased profits, a price was paid by bank employees; many lost their jobs, and many of those still working in the industry complained of worsening working conditions.

Secondly, the personnel restructuring of the financial sector derived from the pursuit of labour flexibility led to a decrease in employment security. There was a huge reduction in the number of regular employees as many banks were closed and merged, and banks undertook redundancy measures in order to save costs. The result was that the number of regular employees in the banking sector decreased from 113,994, in 1997, to 66,881, in 2002 while the use of irregular employees increased, from 15,043, in 1997, to 22,951, in 2002 (Table. 4-10), as banks recruited the latter in order to fill positions vacated by the former. As a result, the era of life-long employment was now over, replaced by a seemingly permanent state of employment insecurity.

Thirdly, due to the change of management strategy (i.e. to one now concerned with cutting costs and rewarding individuals whose performances contribute to greater profits), human resource management in the banks has undergone dramatic change. For example, the pay and promotion systems were changed from traditional ones based on seniority to new ones based on performance and ability. The preferred performance evaluation method, previously an admission method by relative evaluation, one-side evaluation by superior officers, and input-oriented evaluation by length of service and education, was replaced by a graduation method characterized by absolute evaluation,

multi-side evaluation by superior officers, colleagues, and subordinates, and output-oriented evaluation by MBO. Recruitment methods were changed from regular recruitment once or twice a year, advertised either in daily newspapers or internally, whereby existing staff were promoted or transferred, to irregular recruitment on demand, through advertising on the Internet and using job agencies; the net result has been a decline in the number of regular employees but a rise in the number of irregular staff. Education/training methods were also changed from an emphasis on courses offered by the bank and OJT, each with an overall aim of creating a workforce of generalists, to cyber education and the support of self-education, with an aim of producing financial experts. Above changes were because the management strategy of employment relationship was changed from the pursuit of stability to the pursuit of profitability.

Fourthly, faced with a steep rise in employment insecurity brought about by restructuring, the national union (the KFIU) mounted a strong resistance to protect employees. The KFIU changed the form of the trade union from an enterprise union to an industrial union in order to respond effectively to the proposed restructuring of the banking sector. This also had a direct impact upon the bargaining method, which shifted from single-employer bargaining to multi-employer bargaining. The change (centralization of IR) was a result of unions' great efforts and needs to respond effectively to huge restructuring conducted by the government. However, it was also possible because employers did not have any control power of IR in the historical restructuring due to external influences and thought it easier to deal with the union's strong responses to restructuring by negotiating as part of a multi-employer group rather than as single banks. Furthermore, they were used to the group negotiation for last decades (Section 4.6.5.1).

Fifthly, the bank workplace has become a site of industrial hostility (there had been no bank strikes before the 1997 crisis) as unions began to believe that, in some instances, strikes are the most effective form of industrial action with which to fight proposed redundancies. There is no doubt that the tradition of stable industrial relations has come to an end, and that a new era of confrontational industrial relations has begun.

Lastly, the Government's authoritarian industrial relations policy was replaced by corporatism, the latter being viewed as more effective in making restructuring progress

more smoothly. Thus, the Government established the KTC which has played a role as a mediator between the Government and unions whenever strike action has either appeared a possibility or actually occurred.

Industrial relations within the Korean banking sector have changed radically (towards flexibility and profitability, and centralization and militancy) since the national financial (or foreign currency) crisis in 1997. Notwithstanding the increased confrontation between employers and employees, there have been attempts to build a new form of industrial relations that meets the needs of both groups. It is to be hoped that this new form can be built on the foundation of the traditional symbiosis of Korean banking.

**<Table 4.1> Globalization factors in the financial sector**

Factor	Content
1. International advance of financial institutions	Western banks' investments in developing countries and the emerging markets
2. Development of new technologies	Financial institutions become able to operate in the world market for 24 hours each day because of computerization
3. Deregulation of financial industry, due to neo-liberalist policies	Market-opening and privatization become global trends. Restructuring of financial sector towards increased flexibility of organizations and labour in order to pursue greater profits.

**<Table 4.2> Process of financial liberalization in Korea**

Action	Reason	Result
1. Privatization of retail banks	To promote autonomous management	Privatization of Han Il Bank (1981), Seoul Bank (1982), Jae Il (1982), Cho Hung Bank (1983)
2. Permission for banks to seek injections of foreign capital	To pursue open-door market	Establishment of Shin Han Bank (1982), Han Mi Bank (1983)
3. Permission for establishment of new banks	To promote competition	Establishment of Dong Hya Bank (1989), Dong Nam Bank (1989), Dae Dong Bank (1989)
4. Relaxation of restrictions on the trade of foreign capital and currency	To promote the international trade of capital and currency	Promotion of domestic investment of foreign capital and overseas investment of domestic capital
5. Curtailment of the Government's restrictions on financial institutions	To reduce the Government's involvement in the industry	Increase of autonomy
6. Liberalization of capital increase and branch establishment	To strengthen the competitiveness, and enlargement, of financial institutions	Increase of capital and number of branches
7. Legislation for financial reform (1997)	To promote the restructuring of the financial industry	Restructuring of financial institutions, resulting in the closure of bankrupt banks, mergers between banks, and mass redundancy.

Source: Lee and Kim (2001: 87-148)

**<Table 4.3> Reasons for the Korean financial crisis**

Factor	Reason	Result
External reason	Asian foreign currency crisis	Rapid devaluation of Asian currencies, due to economic problems and speculators of foreign currency
Internal reason	1. Absence or, at least, insufficient responsible management in financial institutions, due to government control and over-protection 2. Failure of foreign currency management by financial institutions	1. The government used financial institutions as a tool of economic development. 2. No knowledge and experience of risk management and liquidity management of foreign currency

**<Table 4-4> Size of Government's public fund input to financial institutions (MFE, June 2001)**

	Banks	Other financial institutions	Total
Amount	£41 billion	£27 billion	£68 billion

Source: Ministry of Finance and Economy (Son and. Jung, 2001: 51-2)

**<Table 4-5> Government's share ratio of banks after public fund input (KFC Report, September 2001)**

Bank	Ratio of share by Government (percentage)
Han Bit Bank	100
Pyung Hya Bank	100
Kyung Nam Bank	100
Kyang Ju Bank	100
Seoul Bank	100
Cho Hung Bank	80.05
Je Ju Bank	95.74
Jae Il Bank	49.01
Average	86.13

Source: Lee and Kim, 2001: 132

**<Table 4-6> Bank mergers in Korea**

1998	1999	2000	2001	2002
1. Kook Min Bank + Dae Dong Bank = Kook Min Bank			8. Kook Min Bank (1) + Housing Bank (2) = Kook Min Bank	
2. Housing Bank + Dong Nam Bank = Housing Bank				
3. Sang Yup Bank + Han Il Bank = Han Bit Bank			9. Han Bit Bank (3) + Pyung Hya Bank = Woo Ri Bank	
4. Ha Na Bank + Ba Lam Bank + Chung Chyung Bank = Ha Na Bank				10. Ha Na Bank (4) + Seoul Bank = Ha Na Bank
5. Shin Han Bank + Dong Hya Bank = Shin Han Bank				
6. Han Mi Bank + Kyung Ki Bank = Han Mi Bank				
	7. Cho Hung Bank + Kang Won Bank + Chung Puk Bank = Cho Hung Bank			
From 26 banks (in 1997) to 19 banks (in 1998)	17 banks		15 banks	14 banks

Source: Lee and Kim, 2001: 91

**<Table 4-7> Call centres: the situation as at June 2003**

Bank	Number of employees	Role of employee	Form of operation
Kook Min	1.Irregular employees: 1,430  -Consultants: 1,350 -Supervisors: 80  2.Regular employees: 150	1. Consultant -Inbound: handling of inquiries -Outbound: sales of products and credit card -Ratio of Inbound and Outbound: 4:1  2. Supervisor: supervision of consultants.  3. Regular employees: back business, such as planning, education, management of performance, and monitoring of calls.	A branch of bank
Shin Han	1. Irregular: 130 2. Regular: 20	As above	As above
Woo Ri	1. Irregular: 450 2. Regular: 50	As above	As above
Jae Il	1. Irregular: 284 2. Regular: 289	As above	As above
Ha Na	1. Irregular: 290 2. Regular: 90	As above	As above
Foreign Exchange	1. Irregular: 210 2. Regular: 20	As above	Outsourcing to a subsidiary
Cho Hung	1. Irregular: 290 2. Regular: 90	As above	Outsourcing to a subsidiary

Sources: Interviews with union officers and personnel managers by the author (November 2003) and  
The situation of irregular employees and organizations (KFIU and KCWC, 2003)

**<Table 4-8> Workplace reorganization**

	Past	Present	Reason
Change of form of work organization	Functional organization	Divisional organization	Introduction of a responsible management system
Fragmentation of branch business	1. Front business: sales, paying-in and paying-out. 2. Back business: filing of customers' information, management of performance, answering customers' queries by telephone, monitoring of customer calls	Front business in branch: sales, paying-in and paying-out	Strategy of sales maximization
New-Taylorism of call centre (i.e. back office)		Back business in call centre by New-Taylorism (CTI, ACD, PDS)	Strategy of cost minimization

Source: Interviews with union officers and personnel managers by author (November 2003) and 2003 Annual Reports of Kook Min Bank and Shin Han Bank.

**<Table 4-9> New customization: summary**

	Action	Service	Strategy
Differentiation of customer service	Separation of branches into those dedicated to the needs of enterprise customers, and those which deal with personal customers	1. RM service for enterprise customers 2. PB service for superior personal customers 3. One-stop service for general personal customers	Differentiated customer service according to customer's contribution to a bank's profits
Use of new techniques	CRM and CSS	Supply of better customer service through analysis of customer information, such as service tailored according to a customer's character and ability.	Exploiting customer information for marketing
Diversification of delivery outlet	ATM, EFTPOS, Internet banking, mobile banking	24-hour banking service	Cost saving and Convenience

Sources: Interviews with union officers and personnel managers by the author (November 2003) and 2003 Annual Reports of Kook Min Bank and Shin Han Bank.

**<Table 4-10.> Changes in the number of employees and branches in the retail banking sector (1997-2002)**

	1997 (a)	1998	1999	2000	2001	2002 (b)	Ratio of change (a-b/a)
No. of banks	26	21	17	17	15	14	-47.4 %
No. of regular employees	113,994 (88.3 %)	75,677	74,744	70,559	68,360	66,881 (74.5 %)	-41.3 %
No. of irregular employees	15,043 (11.9 %)	19,013	20,796	Data not available	21,433	22,951 (25.5 %)	+53 %
No. of total employees	129,037	94,690	95,540		89,793	89,832	-30.4 %
No. of branches	5,987	5,056	4,780	4,709	4,776	5,019	-16% (a-b/a)

Source: Korea Federation of Banks (2003), Financial Supervisory Commission (2003), Yon Hap Tong Sin (15 August 2003).

**<Table 4-11> Irregular employees: positions held**

Job	Number of employees and ratio (percentage) (2003.6)	Number of employees and ratio (percentage) (2002.12)	Increase and decrease ratio (percentage)
Teller	14,822 (39.7)	12,316 (42.8)	20.3
Call centre	4,912 (13.2)	3,109 (10.8)	58
Secretary (assistant of regular employee)	4,571 (12.3)	2,196 (7.6)	108.2
IT	566 (1.5)	493 (1.7)	14.8
Credit consultant	334 (0.9)	565 (2.0)	-40.9
Claim withdrawal	665 (1.8)	1,237 (4.3)	-46.2
Professional	433 (1.2)	102 (0.4)	324.5
Other (security man, driver, cleaner, mail deliverer)	10,988 (29.5)	8,764 (30.4)	25.4
Total	37,291 (100)	28,782 (100)	

Source: The Situation of Irregular Employees and Organization (KFIU and KCWC, 2003)

**<Table 4-12> Recruitment channels of irregular employees**

	Number	Ratio (percentage)
Open recruitment	478	40.9
Scout	10	0.8
Informal recruitment by private introduction	363	31
Re-employment after retirement	162	13.9
Etc	156	13.4
<b>Total</b>	<b>1,169</b>	<b>100</b>

Source: The Situation of Irregular Employees and Organization  
(KFIU and KCWC, 2003)

**<Table 4-13> Reasons for getting irregular jobs**

	Number of responses	Ratio (percentage)
No regular job	787	67.3
Family reasons	29	2.5
Personal reasons (education, health)	70	6.0
Better than regular job (professionals)	4	0.3
To learn job	47	4.0
Other	162	13.9
No answer	70	6.0
<b>Total</b>	<b>1,169</b>	<b>100</b>

Source: The Situation of Irregular Employees and Organization  
(KFIU and KCWC, 2003)

**<Table 4-14> Training of irregular employees**

	Training for new employees (percentage)	On-the-job training (OJT) (percentage)
Received	450 (38.5)	270 (23.1)
Not received	700 (59.5)	851 (72.8)
No answer	19 (1.6)	48 (4.1)
<b>Total</b>	<b>1169</b>	<b>1169</b>

Source: The Situation of Irregular Employees and Organization  
(KFIU and KCWC, 2003)

**<Table 4-15> Regular and irregular employees: comparison of pay levels  
(10,000 won)**

	Annual pay (Number of respondents)	Annual bonus (Number of respondents)	Total
Average of Regular employee	3,990 (662)	868 (662)	4,858
Average of irregular employee	1,646 (362)	196 (362)	1,842
Difference	2,344	672	3,016

Source: The Situation of Irregular Employees and Organization  
(KFIU and KCWC, 2003)

**<Table 4-16> Irregular employees: their hopes (by employment form)**

	Number	Ratio (percentage)
Hope of irregular employment	88	7.5
Hope of regular employment	1,015	86.8
No response	66	5.6
Total	1169	100

Source: The Situation of Irregular Employees and Organization  
(KFIU and KCWC, 2003)

**<Table 4-17> Irregular employees: their thoughts on the possibility of transfer to regular employment**

	Number of respondents	Ratio (percentage)
Very high	12	1.1
High	83	7.4
Little	343	30.4
None	689	61.1
No response	34	
Total	1043	100

Source: The Situation of Irregular Employees and Organization  
(KFIU and KCWC, 2003)

**<Table 4-18> Receipt of fringe benefits**

Fringe benefit	Regular employees (Ratio of application - percentage)	Irregular employees (Ratio of application - percentage)
Housing loan	1,119 (94.8)	26 (4.4)
Tuition fee for children	1,080 (94.4)	1,094 (63.0)
Tuition fee for employee	851 (86.7)	27 (4.6)
Traffic expenses	1,247 (96.1)	136 (21.3)
Expenses for congratulations and condolences	1,255 (98.4)	311 (47.2)
Sick leave	1,033 (94.1)	221 (36.4)

Source: The Situation of Irregular Employees and Organization  
(KFIU and KCWC, 2003)

**<Table 4-19> Comparison of working hours**

	Regular number of working hours per week	Regular number of overtime working hours per week
Regular employees	40	7 hours, 22min
Irregular employees	40	5 hours, 46min
Difference	0	1 hour, 36min

Source: The Situation of Irregular Employees and Organization  
(KFIU and KCWC, 2003)

**<Table 4-20> Degree of satisfaction with firm**

	Regular employees (percentage)	Irregular employees (percentage)
Very satisfied (1)	127 (8.3)	12 (1.1)
Satisfied (2)	1,189 (77.9)	479 (42.8)
Unsatisfied (3)	190 (12.4)	486 (43.5)
Very unsatisfied (4)	21 (1.4)	141 (12.6)
Sum	1,527 (100)	1,118 (100)
Average degree of satisfaction	2.07 (Near satisfaction)	2.68 (Near unsatisfied)

Source: The Situation of Irregular Employees and Organization  
(KFIU and KCWC, 2003)

**<Table 4-21> Irregular employees' desire to remain with firm**

	Number of responses	Ratio (percentage)
Trying turnover (i.e. to seek employment elsewhere)	276	23.6
Not trying turnover	841	71.9
No answer	52	4.4
Total	1169	100

Source: The Situation of Irregular Employees and Organization  
(KFIU and KCWC.2003)

**<Table 4-22> Comparison of annual base pay systems**

Form of pay	Components of pay			Method of pay increase		
Traditional pay form in Korea	1. Basic pay	2. Allowances	3. Fixed bonus	Base-up (1+2+3)	Increase of a class	
Current annual base pay in Korea	1. Basic pay	2. Allowances	3. Bonus	Base-up (1+2)	Increase of a class	Incentive bonus
American annual base pay	Basic pay			Merit pay by performance evaluation	Incentive Pay	

Source: Park, 2000b: 197

**<Table 4-23> Advance of performance wage system in Korean banks**

Step	Content	Example
1.	Collective performance bonus to all employees according to profit settlement	All banks since 1990
2.	Performance bonus to specific groups and individuals such as sales teams and fund managers	Cho Hung Bank in 2000
3.	Individual performance bonus to managers	All banks in 2000
4.	Stock options to managers according to their performance	Shin Han Bank and Ha Na Bank in 2000
5.	Individual performance bonuses to employees	Foreign Exchange Bank in 2002

Sources: Interviews with union officers and personnel managers by the author (November 2003), [www.cho.co.kr/newchb](http://www.cho.co.kr/newchb) (21 July 2003), Kook Min Daily (7 January 2002), Media KHAN (26 May 2002), Kyung Hyang Daily (26 May 2000).

**<Table 4-24> Changes of evaluation method**

Past	Present
1. Admission method: relative evaluation	Graduation method: absolute evaluation
2. One-side evaluation by superior officers	Two-way or multi-side evaluation by superior officers, colleagues, and subordinates
3. Input-oriented evaluation: length of service, educational qualifications, and number of certificates	Output-oriented evaluation: result, MBO

Sources: Interviews with union officers and personnel managers by the author (November 2003) and Park (2000a:159-87).

**<Table 4-25> Changes of recruitment**

	Past	Present
Time of recruitment	Regular recruitment: once or twice a year	Irregular: on demand
Notice of recruitment	Daily newspaper	Internet
Filling of vacancy	From internal labour market	From external labour market
Status of entrants	Regular employees	Irregular employees

Sources: Interviews with union officers and personnel managers by the author (November 2003) and Jung, 2000.

**<Table 4-26> Changes in education/training in the banking sector**

	Past	Present (Method)
1.	Cultivation of generalists	Cultivation of financial expert (education in external institutions in Korea or abroad)
2.	Job rotation by OJT	Support of self-education (payment of tuition fees and recognition of achievements on staff personnel records)
3.	Courses offered at education centres, generally at the bank	Cyber education

Sources: Interviews with union officers and personnel managers by the author (November 2003) and [www.goodbank.com/company/recruit](http://www.goodbank.com/company/recruit) (21 July 2003)

**<Table 4-27> Comparison of HRM in six nation-wide retail banks**

Bank	Compensation	Evaluation	Recruitment	Education
1. Kook Min Bank (27,000 employees)	1. Manager: performance pay 2. Staff: seniority pay 3. Executive: stock option 4. All employees: collective performance bonus according to profit settlement 5. Specific group and individuals such as sales teams and fund managers: group or individual performance bonus	MBO	1. Occasional recruitment 2. Internet applications 3. Use of employment agencies 4. Preference for irregular employees	1. Main method: Cyber education 2. Support of self-education. 3. Cultivation of financial experts by external institutions
2. Woo Ri Bank (14,000)	As above	MBO/ Multi-evaluation	As above	1. As above 2. Education by exams every two month.
3. Cho Hung Bank (10,000)	As above	MBO	As above	1. Main method: Cyber education 2. Support of self-education 3. Cultivation of financial experts by external institutions
4. Foreign Exchange Bank (6,700)	1. All employees: performance Pay 2. Executives: stock option	MBO	As above	1. Main method: Cyber education 2. Support of self-education 3. Cultivation of financial experts by external institutions
5. Shin Han Bank (5,500)	1. Managers: performance pay and stock option 2. Staff: seniority pay 3. Executives: stock option 4. All employees: collective performance bonus according to profit settlement 5. Specific groups and individuals such as sales teams and fund managers: group or individual performance bonus	MBO/ Multi-evaluation	As above	1. Main method: Cyber education 2. Support of self-education 3. Cultivation of financial experts by external institutions 4. System of compulsory education hours in branch
6. Jae Il Bank (5000 employees)	1. Managers: performance pay 2. Staff: seniority pay 3. Executives: stock option 4. All employees: collective performance bonus according to profit settlement 5. Specific groups and individuals such as sales teams and fund managers: group or individual performance bonus.	Points rating <sup>44</sup> / Multi-evaluation	As above	1. Main method: Cyber education. 2. Support of self-education. 3. Cultivation of financial experts by external institutions.

Source: Interviews with union officers and personnel managers in the six banks by the author (November 2003)

<sup>44</sup> Points rating is an analytical, factor-based method of job evaluation. Under a point-rating scheme, jobs are scored under a number of different job characteristics or factors, such as skill, effort, know-how, level of responsibility, and decision-making.

**<Table 4-28> KFIU: basic information (December 2003)**

Date of establishment	March 2000: Prior to this, bank unions belonged to a federation of enterprise unions, Korea Federation Financial Unions (KFFU).
Scope of organizing	Workers of banks and financial institutions.
Number of members	79,820: 1). 53,719 (67.3 percent in retail banks) and 26,101 (32.3 percent in other institutions). 2). 56,039 (70.04 percent) male and 23,781 (29.96 percent) female
Number of branches	35 (14 at retail banks and 21 at other institutions)
Number of sub-branches	6,000
Number of full-time officers <sup>45</sup>	302 <sup>46</sup> : 32 at headquarters and 270 at branches
Union density	58.1 percent (79,820/136,812)
Form of collective bargaining	Multi-employers bargaining between the KFIU and a federation of employers

Source: 2003 KFIU Annual Report (2004a).

**<Table 4-29> Change of the number of union members in the KFIU**

Year	1992	1995	1997	1998	2002	2003	Decrease ratio
No of members <sup>47</sup>	139,206	137,883	127,507	110,666	77,399	79,820	*1992-2002: 44 % *1997-2002: 39%

Source: KFIU 2002 Annual Report and KCWC (2003).

**<Table 4-30> Union density in retail banks (2002)**

Date	No of union members (A)	Total No of employees (regular and irregular) (B)	No of regular employees (C)	Union density (A/B)	Union density of regular employees (A/C)
2002	53,975	89,832	66,881	60%	80.7%
April 1998	75,579	108,191	95,236	69.9%	79.4%

Sources: KFIU Annual Report (1999, 2002), FSC's statistics (2003).

<sup>45</sup> The number of full-time officers is decided by a collective bargaining agreement (CBA) between the employer and each union branch. The CBA states that the president of the branch union is able to select the full-time officer, and that the company pays for that person.

<sup>46</sup> This means that there is one full-time officer to every 264 members (79,820/302) of KFIU (see Section 3.4).

<sup>47</sup> The membership of the KFIU is dominated by men and women employed by banks and affiliated financial institutions. Those employed by insurance companies, security companies, and investment companies generally belong to another union, the KFFCU.

**<Table 4-31> Union density in Korea**

1989	1997	1998	1999	2000	2001	2002
19.8%	12.2%	12.6%	11.9%	12%	12%	

Source: 2003 Labour White Paper, by Ministry of Labour

**<Table 4-32> Changes in collective bargaining before and after 2000**

	Union Form	Bargaining Form	Representative of Union	Representative of Employer	Level of bargaining
Before 2000	Enterprise union	Enterprise bargaining	Union chief of each bank union	Chief executive of each bank	Each bank
After 2000	Industrial union	Industrial bargaining	President of industrial union	Chief Executive of each bank (or Chairman of Bank Association)	Banking industry

Sources: KFIU Annual Reports (1998-2004), Kong (2002).

# **CHAPTER 5. STRIKES IN THE BANKING SECTOR: CASE STUDIES**

## **5.1. Introduction**

The bailout fund from IMF was conditional upon the restructuring of financial institutions. Consequently, in 1998, the Government commenced the restructuring of the financial industry in earnest, closing insolvent banks, pursuing bank-large-sizing by mergers, and privatizing banks. The net result was mass redundancies in the banking sector.

Trade unions in the banking sector went on four strikes between 1998 and 2003 in order to protect employees' jobs and to attain their demands for financial reform. The first strike was held in September 1998. It was an industry-wide strike. The second strike, also an industry-wide strike, was held in July 2000. In December 2000, the unions at Kook Min Bank (KMB) and Housing Bank (HB) went on the third strike, their being to prevent the Government-enforced merger between the two banks. The fourth strike, by Cho Hung Bank (CHB) union members, was held in June 2003. Its aim was to prevent the sale of the bank to Shin Han Bank (SHB), a privatization venture by the Government.

This chapter takes a detailed look at the strikes. Why was strike action taken? How did the strikes proceed? What was achieved by the strikes? Of especial concern (it is the main subject of my thesis) is an account of the reasons for the success or failure of the strikes, which were all led (or coordinated by the KFIU (previously the KFFU).

All four strikes (including the pre-strike battles) received extensive media attention from their commencements to their conclusions. In addition to this coverage, there were also published reports on the disputes from the KFIU and the CHBU (KFIU, 1998-2004; CHBU, 2004). This chapter has drawn on these sources (i.e. media and union reports).

## **5.2. The trade unions' response to restructuring in the banking sector**

The Korean government has been embarked upon an ongoing programme of restructuring of the banking sector. The programme can be divided into three, the first restructuring, the second restructuring, and the third restructuring, each with its own focus and content. In terms of strike action, trade unions in the banking sector have responded to the restructuring through two industry-wide strikes and two enterprise-level strikes.

### **5.2.1. The first restructuring and the trade unions' response**

The first restructuring of the banking sector lasted from the first half of 1998 to the first half of 1999. The FSC chose unhealthy banks according to the BIS standard, closing five and merging four of them with other banks after inputting public funds (Table 5-1). Consequently, the number of banks decreased from 26 to 17 and the number of employees from 113,994 to 74,744 during this period. Employment instability became a big issue in industrial relations, and unions began to actively demand employment security. In September 1998, the Korean Federation of Financial Unions (KFFU) went on an industry-wide strike (Table 5-2).

### **5.2.2. The second restructuring and the trade unions' response**

The second restructuring of the banking sector covered the period from the second half of 1999 to the second half of 2001. During this time, the Government first pursued a merger between Kook Min Bank (KMB) and Housing Bank (HB) in order to improve the international competitiveness that it considered a larger bank would have. Secondly, the Government established a financial holding company with responsibility to rearrange insolvent banks that had no other possibility of survival. The Government had attempted to help these banks survive by inputting public funds in the first restructuring period. Consequently, KMB and HB merged (keeping the name of the former) while six insolvent banks came under the control of a financial holding company. Therefore, the number of both banks and employees decreased respectively from 17 to 15 and from 74,744 to 68,360 (Table 5-2).

During this time, trade unions responded actively to the restructuring. First, trade unions transferred their organization form from enterprise unions to an industrial union, the

Korean Financial Industrial Union (KFIU), formed in March 2000. Secondly, in July 2000, they went on a powerful industry-wide strike to change the direction of the Government's restructuring, succeeding in gaining an agreement from the Government. Thirdly, the Kook Min Bank Union (KMBU) and the Housing Bank Union (HBU), both branches of the KFIU, went on a strike under the KFIU's command in order to prevent the merger being forced by the Government. Although the strike was ultimately unsuccessful it virtually brought the banks' business to a standstill for seven days.

### **5.2.3. The third restructuring and the trade unions' response**

The third restructuring of the banking sector occurred between the first half of 2002 and the second half of 2003. During this period, the Government pursued two policies, the privatization of those banks which had received public funds during the first restructuring period, and bank large-sizing through mergers. The Government sold the Seoul Bank to the Ha Na Bank and the Cho Hung Bank to the Shin Han Bank. Therefore, the number of both banks and employees decreased further (Table 5-2).

During the period, the Cho Hung Bank Union, CHBU (also a branch of the KFIU), undertook an eight-month battle, at the end of which the bank's business was stopped for four days. The CHBU eventually entered into a successful (for employees) agreement with the bank's buyer and the Government (Table 5-9).

## **5.3. Industry-wide strikes in September 1998 and July 2000**

### **5.3.1. Industry-wide strike in September 1998**

The Government, in its application to the IMF for a bailout fund, promised economic reforms. Thus began, in earnest, the restructuring of the financial sector. The Government ordered banks to reform their management practices. The result was extensive restructuring, which particularly affected unhealthy banks. On 29 June 1998 the Government closed five insolvent banks. The trade unions responded, protesting against the restructuring at a rally held on 27 June 1998. The leaders of the Korean Federation of Financial Unions (KFFU) also shaved their hair off as a demonstration of their determination to fight against the restructuring at a rally in front of Myung Dong

Cathedral<sup>48</sup> on 6 July 1998. In addition, the unions asked their members to ballot on the subject of a strike on 9 July and established a strike fund (collecting donations from members).

The second step in the restructuring process was the demand, by the FSC on 18 August, of nine unhealthy banks that they reduce the size of their workforce as a precondition for the investment of public funds needed to keep them afloat. The precise details of this step were, first, seven unhealthy banks (Cho Hung, Han Il, Sang Yup, Foreign Exchange, Pyung Hya, Kang Won, and Chung Puk) were required to reduce staff numbers by 30 percent (including those who had already retired in 1998) before the end of 1998 (a further 10 percent reduction was required by the end of 1999), the staff being paid a retirement bonus equivalent to five months salary, and, secondly, the two most seriously unhealthy banks (Seoul Bank, Jae Il Bank), for whom foreign buyers were to be sought (Table. 5-1), were required to reduce staff numbers by 50 percent (including those who had already retired in 1998) by the end of 1998, again with a retirement bonus equivalent to five months salary.

First of all, the unions of the nine banks mandated their right of negotiation to the KFFU, who undertook to organize opposition to the restructuring. Negotiations between unions and employers regarding staff reduction were held – at three meetings – between 7 and 15 September. However, the parties could not reach an agreement, and employers declared the negotiations at a close. Nevertheless, the unions demanded that the negotiations continue, and prevented the employers from departing. The Government sent riot police into the negotiation venue, and the union delegates were arrested. The union cause appeared ruined. However, the unions held two big rallies, on 16 and 19 September, which attracted more than 10,000 members. There, the unions accused the Government of oppression and began preparing for a general strike against the restructuring.

The unions' demands at the negotiations had been: 1. cancellation of the Government's forced demand for staff reduction; 2. guarantee of autonomous negotiation between

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<sup>48</sup> Myung Dong Cathedral: The Cathedral has been a kind of Holy Land (or sanctuary) of the democracy (and labour) movement in Korea since the 1960s when a military government took power through a coup, and thereafter suppressing democracy. Democracy, labour and other social activists have held demonstrations at the Cathedral whenever they have been involved in critical, difficult to legally resolve, issues ([http://hot.empas.com/vogue/read.html?\\_bid=unbearable&asn=8521](http://hot.empas.com/vogue/read.html?_bid=unbearable&asn=8521)).

unions and employers, and; 3. guarantee of 12 months retirement bonus for departures. These were not issues that the management of the unhealthy banks could deal with. Thus, the KFFU submitted an application requesting mediation of labour dispute between the union and the Financial Supervision Commission (FSC) to the Labour Relations Committee (LRC)<sup>49</sup>. However, the LRC returned the application to the KFFU, explaining that the FSC was not an employer according to Korean labour law. The unions felt that they had no option but to take strike action in order to resolve these issues. The strike was announced for 29 September.

On the eve of the strike, about 20,000 union members (out of a total number of 36,569 staff employed at the nine banks) gathered in front of Myung Dong Cathedral, the site of many previous demonstrations, and staged an all-night sit-in demonstration. During the night, the head of the FSC visited the site to meet the head of the KFFU, thus recommencing negotiations; however, they were unable to reach an agreement. At 6 am on the following morning, the head of the KFFU formally announced that the union would proceed with the strike. Employers then changed the method of negotiation from an industry-level one to the individual bank-level in order to prevent the strike. They succeeded in settling individual agreements at Jae IL Bank and Seoul Bank in the morning with a mixture of conciliation and intimidation<sup>50</sup>. Thus, members of those two bank unions returned to work, meaning however that the heads of the two bank unions, in betraying the KFFU and the other bank unions, had broken the law as they had already mandated their negotiation right to the KFFU. This crack in union solidarity weakened the position of the union delegates at the negotiations. Nevertheless, 7,000 members still remained at the demonstration site, and the strike continued until 1 pm, when an agreement was finally reached. The strike thus lasted for four hours, from 9 am to 1 pm. It was the first industry-wide strike in Korean banking history. Due to the strike, many bank branches could not operate properly during the day (Seoul Daily and Han Kye Rae Daily, 30 September 1998). However, the Government, in order to save face (i.e. by proving that it was able to resolve such situations) and to avoid complicated legal problems for the unions, did not agree that it had been a real strike. Thus, although the event had been declared, legally, to be a strike, the prosecution authority announced

<sup>49</sup> Labour Relations Committee: The committee reconciles and arbitrates labour disputes according to labour law.

<sup>50</sup> Employers both conciliated and threatened union officers: 'our banks are different from other insolvent banks because they (i.e. ours) are the ones that the government will sell to foreign investors after inputting the public funds to them (Table.5-1). However, if our employees go on strike the government's policy might change. The result might be a merger through the P&A method'.

that it rescinded the decision to punish 95 union officials for organizing, and engaging in, an illegal strike.

The details of the agreement were as follows: 1. there would be a staff reduction (including already retired employees in 1998) of 32 percent within 1998; 2. Departing staff would be paid the equivalent of 9-12 months salary as a retirement bonus. It meant that, as a result of the strike action, the unions had reduced the percentage of staff to be laid off from between 40 and 50 percent to 32 percent, and had persuaded the banks to increase the retirement bonus from the equivalent of three-five months salary to 9-12 months salary (Table 5-3). Han Kye Rae Daily (30 September 1998) observed that the strike confirmed that staff reduction was impossible without union agreement, and such outcomes had been achieved because of the unions' successful mobilization (a reference to the fact that 20,000 members had participated in the sit-in demonstration held on the evening before the strike) and the collection of a substantial strike fund (approximately £2,500,000).

Nevertheless, union members concluded that the strike had been a failure, and felt defeated (KFIU, 2000). They felt that union unity was very weak, too weak to confront and overcome the Government's restructuring plans. Moreover, as a result of the compromise agreement, 9,026 additional employees would be losing their jobs by the end of 1998. The total number of departures from the nine banks in 1998 was approximately 16,000 (Don Aha Daily, 30 September 1998).

The strike strategy had been to mobilize union members only in order to reduce the percentage of employees who would lose their jobs. As already noted, the KFFU succeeded in attracting approximately 20,000 members to the pre-strike demonstration. However, they failed to maintain the unity between union members until the end of strike. The problem stemmed from the union form (each bank was represented by its own union, i.e. they were enterprise unions). The union members had no experience of an industry-wide strike. Their preparation was poor as they had no precedent from which to learn. In addition, they were unable to make their case a political issue because the public, because of the national financial crisis, understood the need for, and generally supported, the Government's restructuring plans.

### **5.3.2. Industry-wide strike in July 2000**

#### **5.3.2.1. Background**

After the Government had completed the first restructuring of the financial sector, it began to prepare for the second restructuring in the second half of 1999 (Table 5-2). The KFIU and the Government consulted, from September 1999, on financial policy as it affected the second restructuring as members of the Special Committee of Financial Restructuring (SCFR) in the Korea Tripartite Commission (KTC). At the SCFR, the KFIU requested that the Government explain, in detail, the direction of its restructuring policy.

However, the Government proved to be insincere in its attitude at the meetings. For instance, the core committee members from Ministry of Finance and Economy (MOFE) and the FSC did not attend a SCFR meeting for seven months after the first meeting. Instead, the Government either sent lower-level officials to the meetings or, on occasions, nobody at all. Therefore, the consultations at the SCFR became meaningless, and the Government's attitude provoked distrust and anger from the KFIU. In addition, the Government proceeded unilaterally with the second financial restructuring. For instance, it tried to introduce the Financial Holding Company (FHC)<sup>51</sup> legislation in order to propel mergers between banks. Consequently, the KFIU felt that it had no choice but to go on strike if it was to prevent unilateral restructuring by the Government.

#### **5.3.2.2. Mobilization**

As the Government confirmed its intentions to proceed with the second financial restructuring on 7 June 2000, including an intention to pass the FHC legislation, at a meeting of economy-related ministers, the KFIU withdrew from the SCFR and announced that it would call a general strike.

First, the leaders of the KFIU and union branches held a rally on 16 June, declaring their determination to go to jail if necessary; they also shaved their hair as a symbol of their determination to fight against the restructuring.

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<sup>51</sup> Financial Holding Company: A company in a group of financial companies that holds shares in other financial companies (as its subsidiaries).

Secondly, the KFIU held a big rally, attended by approximately 10,000 members, at a public park on 1 July. The formal declaration of a strike, to be held on 11 July, was made. The strike's objective was to force the Government to cease its involvement in financial institutions. Around this period, the KFIU held other rallies; approximately 50,000 members participated in ones held on 21 June and 3 July.

Thirdly, on 4 July, the KFIU announced its six formal demands to the Government. These were: 1. dismiss the Minister of Finance and Economy who is responsible for the failure and confusion of the financial market, and hold a hearing into the financial restructuring! 2. The Government has to take responsibility for the insolvent credits resulting from the Government's involvement in financial institutions! 3. Enact special laws in order to eradicate the Government's involvement in financial institutions! 4. Cancel the policy of forced mergers of financial institutions! 5. Repeal the hurried legislation regarding Financial Holding Companies! 6. Cancel the plan to separate the credit business from the cooperative associations! (Table 5-4).

Fourthly, the union submitted a mediation application of labour dispute to the Labour Relations Commission on 26 June. In compliance with Korean labour law it also asked approximately 65,000 members to vote on a strike on 3 July. Ninety percent of the members voted for the strike; union members also agreed to begin wearing casual clothing to work from 4 July. The head of the Tripartite Commission suggested that the head of the FSC should meet with the head of the union.

Fifthly, the union sought the support of outside (i.e. non-union) resources. On 5 July, the union and civic groups established a committee whose aims were the cessation of the Government's involvement in financial firms and the development of the financial industry. The organization was to support the fight by the KFIU.

Sixthly, the KFIU collected £5,000,000 in strike funds from members. The union let members submit a leave of absence for five days to their banks in order to be able to participate in the strike legally.

Seventhly, the union exerted political pressure, requesting the support of opposition MPs in delaying the passing of the FHC legislation in the National Assembly. This was

a success, in that the legislation was delayed until 10 July. This placed the FSC under enormous pressure, forcing it to be much more positive during the negotiations.

Lastly, the union requested that its members gather at a stadium at Yun Se University (in the centre of Seoul) on the evening of 10 July, on the eve of the strike. Approximately 30,000 union members (out of a total of 65,000 in bank unions, and out of a total of 83,000 members in the KFIU) participated in the rally which continued until the formal commencement of the strike at 8 am on the following day. (The media estimated the crowd at 30,000, the union at 40,000, and the FSC at 25,000.) However, two bank unions (E Bank and K Bank branches of the KFIU) announced their withdrawal from the strike around lunchtime due to pressure from their employers and a difference of interest related to the FHC legislation. Thus, the number of strikers decreased to approximately 20,000 (the media and the union's calculation was 20,000; the FSC placed the figure at approximately 16,000). The media argued that this lack of unity was a characteristic of white-collar unions (Mun Ha Daily, 12 July 2000). Nevertheless, 20,000 strikers was still an impressive number, and their commitment was apparent despite the fact that it rained intermittently throughout the day.

As a result of the strike, the business of several banks was partially paralyzed and customers were seriously inconvenienced. Approximately 40 percent of the employees of Han Bit Bank, Seoul Bank, and Cho Hung Bank participated in the strike. The FSC reported that deposits of about £800 million were transferred from strike banks to non-strike banks because of the strike (Kook Min Daily, 13 July 2000).

At this strike, the KFIU began to use a new method of communication with its members, the telephone community service, the so-called "companions' room". It is a cheap and convenient telephone service which allows members of a group to send and receive voice messages. The union used the service to inform union members (via their mobile phones) of the strike venue, meeting time, and the decision to return to work. Due to the strike, negotiations recommenced at 1 pm. The union and the FSC reached an agreement at 7.20 pm. The head of the KFIU announced the formal end of the strike to members at 8 pm. The strikers had been together for exactly 24 hours, with the strike itself lasting officially for 12 hours (8 am to 8 pm on 11 July).

This strike was much stronger than the one that had been held in September 1998. In the earlier strike, union members (all representing enterprise unions) from just nine insolvent banks had participated, and the unity between unions had been weak. However, in the 2000 strike, more union members from all banks participated. Not only did they do so under the leadership of an industrial union, but the preparation and general organization of the strike were much more thorough. It was also a genuine industry-wide strike as all the issues were related to the second restructuring, something which affected all banks.

The success was partly due the union having learned from the September 1998 strike, which the leaders of the KFIU had concluded had been a failure (KFIU, 2000). For instance, since then (in March 2000) the form of union had been transformed from enterprise to industrial in order to respond more effectively to the second restructuring. Secondly, unions were better prepared, undertaking a number of activities before the strike. These included the public declaration by union leaders of the commitment to risk going to jail, and the holding of regional rallies attracting approximately 50,000 members.

In the face of such organized opposition, the Government had no alternative but to actively engage in the negotiation process. The strike would have been prolonged had it failed to do so. After intensive negotiations, lasting from 1 pm to 7.20 pm on the day of the strike, an agreement was produced.

### **5.3.2.3. Negotiation**

There was no negotiation between the union and the Government until a day before the strike. On 4 July, as the strike day neared, the head of the Tripartite Commission recommended to the head of the FSC that he begin negotiations with delegates from the KFIU. The FSC therefore had no choice but to engage in negotiation. The first meeting took place on 7 July. Two further meetings were held on 9 and 10 July. However, the parties could not reach a compromise before the day of the strike. The negotiations were conducted at two levels, chief-level and working-level. The chief-level negotiation involved the heads of the KFIU and the FSC, and it was they who made the final decision. The working-level negotiations were held between executives; it was they who formulated agreements for consideration by the chiefs. The first working-level meeting was held from 11.50 pm, 10 July to 4 am, 11 July, but it failed to produce a

potential agreement. The second working-level meeting began a few hours later, at 9.15 am, and it did produce an agreement which could be presented to the heads. Negotiations between the heads of the two organizations began at 1 pm. The parties produced a final agreement at 7.20 pm.

There was no precedent in Korean history for the signing of a collective agreement related to a labour dispute between the union and the Government. Thus, the agreement was announced as a decision of the Tripartite Commission on 12 September. The KFIU had obtained a promise from the Government that it (the Government) would not be involved in financial institutions, the permission for a trial of management normalization by banks (that are judged to be able to solve insolvent bonds for themselves and to survive individually although they received public funds), the guarantee of personnel and organization reduction according to autonomous consultation between unions and employers, and the payment of debts for which the Government had a responsibility (see the content of the July agreement in Table 5-4). In return, the union conceded that the Government could proceed with elements of the second financial restructuring, such as the FHC legislation, subject to the union's agreement. The most important outcome of the agreement was that the Government and the union would now decide on the direction of financial policy together. Therefore, the union attained a position of direct influence on government policy.

However, the agreement mainly dealt with the basic direction and execution of the second financial restructuring. There thus remained the possibilities of conflicts with regard to the actual details of restructuring (KTC, 2000).

#### **5.3.2.4. Strategy**

The union's strategy was to stop the second restructuring of the financial sector through the development of a justification for a strike that would win public support, the mobilization of both internal and external resources, and the maximum use of current political opportunities. First, the union sought, as justification for its action, the eradication of the Government's inappropriate involvement in the actual running of financial institutions. It was hoped that this would appeal to bankers, union members, and the public. To do this, the union referred to several instances of government intervention: 1. The Government had appointed a Vice-Chairman of the FSC as the CEO of Kook Min Bank in disregard of legal process. 2. It forcefully allocated bonds

valued at £5 billion to banks in order to support capital investment to composite financial firms. These were high-risk bonds, and would eventually become debts for the banks. 3. It did not compensate the loss resulting from the £5 billion economy cooperation loan to Russia that it had guaranteed. 4. The Government forced banks to make loans valued at £2 billion to the Dae Woo Group. These also became debts for the banks. The union argued that the Government transferred the responsibility of the financial crisis to those working in the financial sector when, in fact, the insolvency of the banks stemmed from instances of government involvement, such as those described above.

Secondly, with the shaving of their heads and their declaration that they were willing to go to jail the union leaders tried to mobilize support for a strike from their members. In addition, various collective actions were undertaken before the strike. These included the holding of big rallies, a strike vote, the collection of strike funds, the wearing of casual clothing to work, the submission of leave of absence requests, and the agreement from IT operators that they would participate in the strike. The last of these was particularly effective as the Government greatly feared the consequences of a breakdown of the banking sector's IT network. (However, in the end, the union did not ask IT operators to participate in the strike).

Thirdly, the union used outside resources in order to extend its sphere of influence. These included the Tripartite Commission, civic groups, and the national centre of unions. The use of all these assisted greatly in persuading the Government to participate in the negotiations.

Lastly, the union adroitly took advantage of political opportunities. The union utilized the period leading up to the General Election in April to publicize their opposition to the restructuring. The union prepared a pamphlet containing its argument against the restructuring, and distributed it to the people on the street and at canvassing places. The union also appealed to opposition MPs to prevent the passing of the FHC legislation. As a result, the MPs delayed the FHC legislation in the National Assembly, adding to the pressure on the Government to compromise with the union.

To sum up, the union's strike strategy was to mobilize both internal and external resources and to utilize possible political opportunities through the development of a

strike justification. As a result of a mobilization strategy employing all of the above, the union was able to attain successful outcomes from the strike.

#### **5.3.2.5. Evaluation**

Evaluations of the strike were conducted by the media, the union, and the Government. The media appraised the strike as a win-win result for both the union and the Government, as it had ended with an "exquisite" compromise (Mun Hha Daily, 12 July 2000). The Government and the union compromised, each making concessions and each committing to financial reform. The union attained the Government's promise that it (the Government) would cease direct involvement in financial institutions, compensate bank losses that had resulted from that involvement, and force no more mergers (Table 5-4). The Government received union approval to proceed with the second restructuring of the financial sector, subject to the union's agreement (Kyung Hyang Daily, 12 July 2000). The media noted that the strike had been the first led by an industrial union and that the amount of strike funds, £5,000,000, had been the biggest in Korean history. In addition, the contents of the agreement were directly related to the Government's financial policy, and that high-level officials had participated in the negotiations. Thus, the strike served as a new model for the Korean labour movement. However, the strike still revealed one limitation of the participation by branch unions in an industrial union strike, as some withdrew during the middle of the strike (Mun Hha Daily, 12 July 2000).

The union's conclusion was that the strike had been a great victory. According to an official of the KFIU (Han Kook Economy Daily, 12 July 2000), it demonstrated the powerful mobilization ability of a white-collar industrial union and suggested a new model (i.e. negotiation between the union and the Government on the issue of government policy) for the labour movement. The head of the KFIU argued that the strike was a victory for the attainment of autonomous management of banks through labour power following the Government's promise that its officials would no longer be directly involved in the running of financial institutions (Han Kook Economy Daily, 12 July 2000). However, as several union branches either did not participate in the strike or withdrew during it, some members concluded that white-collar labour unions preferred individual interests to industry-wide interests.

A spokesman for the Blue House (the Presidential Palace) described the compromise between the union and the FSC as a victory for democracy. He argued that the process and results of negotiation reflected well on democratic procedures, maintained social order, and accomplished the reform that the President had emphasized (Kook Min Daily, 13 July).

Finally, the head of the FSC told reporters after the compromise "Please, understand the results as the Government's answers to the union's requests, and that it is an example of the Government's acceptance of union requests as well as the requests of employers and shareholders" (Se Ge Daily, 12 July).

Although the union believed that it had achieved good outcomes from the strike the Government also thought that the compromise agreement justified their programme of financial reform. The reason for the latter was that the agreement confirmed the basic direction of, and execution of, the second financial restructuring. The possibility of conflicts related to the more detailed contents of the agreement remained, especially when the restructuring programme proceeded in earnest in the future (KTC, 2000).

#### **5.3.2.6. Learning**

The success of the strike was derived, in part, from learning the lessons of the failure of the September 1998 strike. On that earlier occasion, the unions had felt defeated and desperate even though they had managed to reduce the level of the staff reduction. Overall though, because of poor organization they had not achieved totally satisfactory outcomes. First of all, they were disappointed with the poor solidarity between bank unions. Just nine insolvent banks' unions had participated in the strike. Furthermore, several unions seceded from the federation during the negotiation and struck individual deals with their employers. (This was one of the drawbacks of the enterprise union system; each union was free to negotiate with its own bank, independently.) Thus, the influence of the strike was diluted significantly, forcing union leaders to finish the negotiation quickly while their bargaining position was still relatively strong.

Consequently, in March 2000, unions first transformed their form from enterprise unions to an industrial union, with the establishment of the KFIU, in order to strengthen their solidarity. Only then did they respond to the second restructuring. The KFIU could coordinate the participation of all financial institutions' unions in the strike. Secondly,

unions based their demands around the Government's financial policy. As this affected all financial institutions, the union could count on the support of all banks, civic groups and political parties. Thirdly, the unions encouraged IT operators to participate in the strike in order to increase the pressure on the Government although the union actually did not mobilize them for the strike. None of these tactics had been employed in September 1998. In fact, all were developed in the light of the failure of that strike.

## 5.4. Strike at Kook Min Bank in December 2000

### 5.4.1. Background of strike

Under the KFIU's command, the Kook Min Bank Union (KMBU) and the Housing Bank Union (HBU)<sup>52</sup> went on strike to prevent the Government's merger plan between the two banks. The two unions contended that the merger would bring about mass layoffs and that the forced merger was a breach of an agreement<sup>53</sup> contracted between the Government and the KFIU on 17 July 2000. The main goal of the second restructuring of the financial sector had been a bank large-sizing policy, achieved by mergers between banks, which the Government believed was necessary to improve international competitiveness. The merger of banks meant huge personnel reductions. The KFIU had considered that it had no choice but to go on strike to protect workers' jobs.

In accordance with the July Agreement (Section 2 in Table 5-4), the Management Evaluation Commission of Bank (MECB) evaluated the management normalization plans of unhealthy banks, announcing the results of their investigation into bank management on 8 November 2000. The Commission concluded that six banks<sup>54</sup> could not survive independently. This meant that these banks would be merged with other banks. Thus, the second round of restructuring of banking was unavoidable. The main forms that the restructuring would take would be the establishment of a financial holding company and mergers between banks by the Government. Accordingly, the Ministry of Finance and Economy (MOFE) suggested a reform plan, financed by public

<sup>52</sup> The KMBU and the HBU are branches of the KFIU. In each case, the branch union (i.e. KMBU and HBU) is the only union at its bank. Korean labour law prohibits union pluralism at enterprise level until the end of 2006.

<sup>53</sup> Agreement Clause 3; There will be no forced merger instigated by the Government in the second financial reform (Table 5-4).

<sup>54</sup> The six banks were Jae Il Bank, Seoul Bank, Kyung Nam Bank, Kwang Ju Bank, Je Ju Bank, and Pyung Hyu Bank.

funds, to the National Assembly on 28 November. The core of the reform plan was that insolvent banks had to attach a union's agreement to personnel restructuring when they contracted a memorandum of understanding (MOU)<sup>55</sup> with the Government in order to receive public funding. Union resistance to personnel restructuring was thus blocked in advance. Agreeing to redundancies was, in effect, a precondition of the receipt of public funds for insolvent banks.

The KFIU contended that the Government's enforcement of the agreement between employers and unions regarding restructuring was a breach of the July agreement contracted between the Government and the KFIU as part of a strike settlement in July 2000: "There will no be forced mergers instigated by the Government in the second financial reform. The Government will respect collective bargaining agreements between unions and employers regarding the reduction of personnel and reorganization" (Table 5-4). The KFIU stated that it could not accept the Government's request for additional personnel reductions because insolvent banks had already cut staff numbers in the previous October.

The MOFE threatened to dispose of insolvent banks through Purchase and Assumption (P&A)<sup>56</sup> instead of establishing a financial holding company if the union did not agree to the downsizing. An MOFE official described the Government's position clearly: "There is no way to avoid self-help efforts, including personnel reduction, because the inputting of public funds to insolvent banks is to increase each bank's competitiveness. So, if banks refuse the self-help option they will be disposed of according to P&A" (Dong Aha Daily, 1 December 2000). The KFIU responded in strong terms, announcing that it would call a general strike if the Government compelled the restructuring and did not respect the July agreement.

Nevertheless, the Chairman of the FSC issued a statement on 8 December, revealing the establishment of a financial holding company led by Han Bit Bank as well as mergers between healthy banks. The specific merger between healthy banks to which he referred was that between KMB and HB. The Chairman emphasized that the "Korean banking

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<sup>55</sup> MOU (Memorandum of Understanding): This refers generally to appended contracts of a mother agreement, dealing with follow-up steps.

<sup>56</sup> P&A (Purchase and Assumption): With this method the Government lets healthy financial institutions assume assets and debts of insolvent financial institutions. In the case, undertaking institutions do not take employment responsibility of employees of insolvent institutions, and they can reject excessive debts.

sector would be able to have global competitiveness when it has at least two banks within the top 100 world banks. Such banks will come into existence soon, by the end of 2000" (Han Kook Economy Daily, 9 December 2000).

The announcement of mergers between healthy banks was a surprise attack. It was the starting signal of the Government's bank large-sizing policy. The KFIU, the KMBU and the HBU announced that they opposed the merger plan and that they would respond to the merger through various industrial actions, including a strike. They understood that the merger would be synonymous with mass layoffs and that other mergers would follow.

KMB was the biggest bank in Korea, with 11,026 regular employees and 3,493 irregular employees, 600 branches, and assets valued at £45 billion. HB was the third biggest bank in the country, with 8,855 regular employees and 3,244 irregular employees, 557 branches, and assets of £38.5 billion. Many of the bankers were also members of their respective bank's unions; the KMBU had 8,166 members and the HBU had 7,127 members. The biggest shareholder of KMB was Goldman Sachs, with 11.07 percent of the shares, while the biggest shareholder in HB was the Government, which owned 14.5 percent of the shares. The Government announced that the merged bank would be the 60<sup>th</sup> biggest bank in the world, with assets valued at £83.5 billion

#### **5.4.2. Mobilization**

As soon as the KMBU and the HBU heard of the merger plan on 8 December 2000, they deployed collective actions, including a strike, in order to prevent the merger plan. However, they had not enough time to develop a proper strategy, one necessary to achieve their object. Therefore, they failed to attain their goal although they succeeded in mobilizing members for a strike.

##### **5.4.2.1. Progress before the strike**

As soon as the unions recognized the Government's merger plan of their banks, they began to prepare for a strike which they hoped would force the Government to cancel the merger. However, they had just 13 days to prepare for the strike, from 8 to 21 December. During this period, they undertook several activities designed to prevent the merger. These included a membership rally, a sit-in demonstration, a strike vote, a

collection of strike funds, and the recommendation to staff that they wear casual clothing to work.

As the rumour of a merger between HMB and HB began receiving media attention on 8 December, the leaders of the KMBU and the HBU judged that it was imperative that they act quickly to cancel the merger plan at an early stage. Thus, they at once set about mobilizing employees. On 11 December, they informed employees in a union notice: "The unions have learned that the merger between KMB and HB is being propelled secretly behind closed doors... Thus, huge downsizing of personnel and organization will be unavoidable in the short and long run although employers are discussing the merger in terms of an increase of share price and the synergy effect of finance... Nobody knows who will become the target of staff cuts if about 30 percent of the workforce has to leave the new bank... The KMBU and the HBU will take all kinds of measures in order to break up the merger plan" (Han Gye Rae Daily, 12 December 2000). The unions then asked employees to ballot if they supported the merger or if they supported a strike against it. The object of the vote was to marshal employees' energy and commitment against the Government-forced merger.

On the evening of 12 December, 1,000 KMBU members staged a sit-in demonstration at the bank's headquarters. They asked the Chief Executive Officer (CEO) in front of his office for the cancellation of merger plan. It was effectively a blockade of the CEO's office; the CEO was unable to leave his office until 14 December. He had a continuous round of meetings with union delegates as well as some of his own management staff who recommended the cancellation of the merger plan. During this period, one union member even poured gasoline over himself, and threatened suicide, an indication of the strength of feeling against the merger. As a result, the CEO had to sign an agreement to the effect that the current merger discussions had been temporarily suspended. "The merger talks will be advanced transparently after listening to employees' opinions, that is if the merger talks proceed again afterwards" (Mae IL Economy Daily, 15 December 2000).

The Government's plan to make a public announcement of the merger by 14 December was thus delayed. The media reported that the merger plan did seem to have been cancelled (Kyung Hyang Daily, 15 December 2000). However, the Government argued

that the impetus for merger was coming from major shareholders, not the CEOs. Therefore, the promise of the CEO was an almost meaningless statement.

As preparation for a strike, the KMBU and the HBU held a meeting of shop stewards on 16 December. The two unions then put a vote to strike to members on 18 December. Almost all union members took part in the on-line vote; 99.98 percent of the total members of the KMBU voted, with 95.18 percent (of voters) voting in favour of the strike. At HB, 91 percent of total union members participated in the vote, and 89.8 percent (of voters) voted to strike.

From that day onwards, union members of the two banks started to wear casual clothing as a symbol of collective action. The two unions also collected £600,000 in strike funds from members. On the same day (18 December), the KFIU called the CC in order to deal with the issue and decided that the union members from all six banks<sup>57</sup> identified by the MECB as requiring merging if they were to survive would go on strike together on 22 December in order to block the Government's unilateral restructuring (i.e. the mergers). On 19 December, 1,100 team managers (non-union members) of KMB announced they would also wear casual clothing as a protest against the merger and, later, hand in their resignations if mergers became an ongoing government policy.

As it became clearer that the KFIU strike was about to become a reality, on 21 December the Government declared that such a form of industrial action by the union would be illegal<sup>58</sup>, and that union leaders and participants would be arrested on the spot. According to Korean labour law, it was very difficult for bank unions to legally strike because banking was considered a kind of public industry (see Section 4.6.5.2). In response, the KFIU announced its requests to the Government a day before going on strike. These were: 1. Honour the July agreement between the union and the Government (Table 5-4: Agreement Clause 3). 2. Censure ministers for the failure of the financial restructuring and economic policy.

The KFIU ordered the union members of KMB and HB to meet at the Financial Education Centre (FEC) in Il San City at 9 pm 21 December. In response, 13,000

<sup>57</sup> The six banks were KMB, HB, and four insolvent banks (Kyung Nam Bank, Kwang Ju Bank, Je Ju Bank, and Pyung Hya Bank). Seoul Bank and Jae Il Bank were objectives to sell foreign investors individually (Table 5-1).

<sup>58</sup> The union did not step on legal processes of strike and Korea labour law regulates that strike of managerial rights such as the decision of merger is illegal.

members of the two banks gathered there. This was 65 percent of the total number of regular employees of the two banks (13,000/20,000) and 95 percent of the union members (13,000/14,360). In addition, 2,500 union members of the four other insolvent banks gathered at Kyung Nam University in MaSan City.

Negotiations between the KFIU and the Government started at the Tripartite Commission office at 3 pm, 21 December. An agreement was reached at 2 am, 22 December (Table 5-7). After learning of the above agreement, union members of the four insolvent banks, who had met at MaSan City, dispersed at 5 am because their issues had been resolved. The media expressed the view that the Government had capitulated under the pressure of a threatened strike (Cho Sun Daily and Dong Aha Daily 23 December 2000). In other words, the media evaluated the content of the provisional agreement as a unanimous victory for the union.

#### **5.4.2.2. Progress of the strike**

However, members of the KMBU and the HBU who had gathered in the Financial Education Centre (FEC) in IL San City rejected the agreement. Unhappy with the outcomes of the negotiations they went on strike, demanding the complete cancellation of the merger plan. Leaders of the KFIU could not persuade them to change their minds on this issue<sup>59</sup>, although, to some extent, they also thought that the merger could not ultimately be prevented without a strike. The Government then utilized the fact of the illegality of the strike to renege on the agreement. The Government pushed the CEOs of the two banks to announce that they had contracted a MOU of the merger in the afternoon. It proceeded with a forceful break-up of the strike, and the prosecution issued a warrant for the arrest of 10 union leaders.

On the first day of the strike, the business of both banks was almost paralyzed. Customers could use just Cash Dispenser (CD)/Automatic Transfer Machines (ATMs)<sup>60</sup>. The bank was unable to honour the cheques of some business customers. The FSC promised to save those businesses seriously damaged by this. KMB confirmed that 130

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<sup>59</sup> In accordance with the provisional agreement, union leaders should have persuaded and dismissed members once to have negotiations with employers regarding the merger. Provisional Agreement Clause 1; According to the July agreement, any merger between KMB and HB should be decided by autonomous negotiation between the unions and the employers (Table 5-7).

<sup>60</sup> CD/ATM: A computerized machine usually attached to the outside wall of a High-Street bank or placed in convenient places for customers that enables customers to withdraw cash from their current accounts, especially outside normal banking hours.

of a total of 330 employees in IT centres appeared for work while HB said that 450 of their 700 IT staff had reported for duty. Union members held an all-day sit-in demonstration on the grounds of the FEC. To prepare for a long strike, they set up a huge tented city (to accommodate male strikers as the FEC itself had enough space for female strikers only), and made fires in drums (for warmth). It looked like a refugee camp.

On the second day, the sit-in rally continued all day. The strikers sang movement songs, listened to speeches, and planned their strategy for the following day. Meanwhile, riot police waited outside to break up the strike. Two police helicopters made low intimidating sweeps over the makeshift tent city, distributing leaflets urging the strikers to disband. It seemed that the riot police was about to advance into the grounds. Thus, at the main gate, union members set up barricades to block the expected advance. In the meantime, HB reported that just 800 of the 4100 CD/ATMs were operating; the bank recommended that customers use other banks' CD/ATMs. Other banks agreed to the exemption of the usual additional fee for the use of their CD/ATMs as a support measure.

On the morning of the third day, 2,500 riot policemen were once again stationed in front of the main gate; there was also a threat to break up the strike with the support of two police helicopters. The President of the KFIU announced "we will never go out before riot police break up our demonstration forcibly and we will gather again at another place if the police do break us up" (Han Gye Rae Daily, 25 December 2000). The CEOs of both banks issued an order to striking workers to return to work by 26 December, threatening disciplinary action against employees who failed to comply. In the afternoon, 300 KMB team managers brought 1,000 cakes to the strikers and joined the sit-in demonstration. Members of the strikers' families also visited. They brought food and clothing. It was Christmas Eve, and a Christmas mood enveloped the place in the evening. A three-metre-high Christmas tree in front of the main building was lighted, and a children's choir visited and sang the carols for the strikers. Several hundred Christians also held a Christmas mass. Meanwhile, the media reported that due to customers' withdrawals from the two banks, the deposits in other banks had increased by about £1.4 billion during the first three days of the strike.

On the fourth day, because of staff shortages, both banks decided to operate just key branches and to close small branches. The FSC announced that it would send their 200 employees to the key branches in order to help business. In response, the KFIU sent a message to all their branch unions, recommending that a general strike on 28 December be held in support of the two banks' strike. The message recommended three actions: 1. Conduct strike vote on 26 December. 2. Wear casual clothes and a ribbon as symbols of support of the strike on 27 December. 3. Go on strike at 9 am, 28 December.

On the fifth day, 26 December, KMB opened just 35 key branches (out of 594) and HB operated 84 key branches (out of a total of 533). However, the key branches found it hard to operate normally because of both the scarcity of staff and business congestion. The chief of one branch said: "Just 10 part-time employees among 23 employees were working (E-Daily, 27 December 2000)". ATMs did not operate, except at key branches. The FSC reported that 5,568 regular employees, out of a total of 20,000, reported for work on this day. Meanwhile, the KFIU remained determined to continue with the strike, while also encouraging other banks' unions to prepare for the supporting strike of 28 December.

On the sixth day, 27 December, 7,000 riot policemen, with support from two helicopters, at last rushed into the grounds of the FEC. They were confronted by 10,000 strikers, and a scrimmage ensued. In the process, several union members were injured by riot policemen's cudgels and shields. However, the use of force prevailed, and the union members dispersed. Following instructions from the KFIU, the dispersed members met up again at a second venue. On the same day, following another order from the KFIU, 800 union members in IT centres, turned off their mobile phones, hid themselves, and awaited for the union's instruction about the second gathering place. They communicated by the Internet in order to block interruption of phone calls by management. They were a last fortress for the strike. The impact of a refusal to work by the IT operators was viewed as the last throw of the dice for the union. At this time, the union used the Internet community site, the so-called "Internet companions' society", to communicate with union members employed at IT centres. The members of the community site had to input a password to enter the site. The union used the website to secretly inform members at the IT centre of the new location, thus preventing the police from learning of it.

Meanwhile, the Government instructed the CEOs of the two banks to take disciplinary action against employees who did not return to work by 28 December. The FSC reported that 6957 of the 20,000 regular employees appeared in their offices on the day before that deadline.

The KFIU instructed members (by phone message) to gather at Korea University from 4 pm on that afternoon, 27 December; however, the riot police blocked all gates of the university. The police also blocked other potential sites, such as Myung Dong Cathedral, Cho Ge Temple, and other universities. Eight hundred union members of IT centres were, however, able to meet in an education centre of the Federation of Korean Trade Unions in Yea Ju City (this had been agreed upon via the Internet community site, to which the police did not have access). The fate of the strike still hung in the balance at this point because, according to the KFIU's request, the ballots from other bank unions for a supporting strike vote were progressing. Unfortunately, the results of the ballots were disappointing, with fewer than 50 percent of members agreeing to the action. It meant that the KFIU were unable to carry on the strike. The failure to obtain backing for the supporting strike was a result of differences of interests between banks. Specifically, insolvent banks, reliant on public funds for survival, were reluctant to upset the Government. In addition, there was a residuum of antipathy against the two bank unions because they had not joined the July strike. The reason had been simple; as healthy banks, the two had not had any need of public funds.

At 4.20 pm, on the seventh day, 28 December, the President of the KFIU announced the cessation of the strike on the following conditions: 1. the merger talks must only progress through autonomous negotiation between employers and unions. 2. No punishment must be taken against union members who had participated in the strike. 3. Legal punishment of union leaders must be minimized.

The President of the KFIU ordered members to return to work. He mentioned the deepening difficulties faced by the financial market as the main reason for calling the strike off. However, the more pressing reasons were, in reality, the following: 1. the union had no alternative venue at which its members could gather. As a result, some members had already started to return to work; 2. The KFIU had failed to convince other bank unions to take strike action in support of the two banks directly affected by the merger, and; 3. Union leaders were becoming increasingly aware of (and burdened

by) the financial damage to the two banks, customers' dissatisfaction with the strike, and a trend amongst the general public towards opposition to the strike.

The FSC reported that about 50 percent of union members returned to work on the day after the announcement of the calling-off of the strike. HB was able to open 498 of its 533 branches, and KMB 332 of its 594 branches. However, without a full complement of staff only basic business could be carried out on that day. The media reported that deposits of £1.6 billion had been transferred from KMB and HB to other banks during the strike period (22 to 28 December).

A consequence of the strike failure was that 29 union leaders, including the heads of the KFIU, the KMBU and the HBU, were arrested and prosecuted<sup>61</sup>. The Government was able to subsequently progress with the second financial restructuring without any union resistance.

#### **5.4.3. Negotiation**

Before the KMBU and the HBU went on strike, the KFIU had won some concessions from the Government through the threat of a strike. However, it failed to persuade union members to accept the result. Thus, the KFIU, without a proper strategy in place, was – in a sense – forced to go on strike as a result of demands by its members. The strike was broken up by riot police before the union had achieved any significant outcomes from the action.

Since the financial crisis in 1997, negotiations regarding the restructuring of the financial sector had been made through the Korea Tripartite Commission (KTC). As the Government advanced the second restructuring of the sector, the Federation of Korean Trade Unions (FKTU)<sup>62</sup> announced the suspension of its participation in the KTC. This decision, made on 8 November, was a protest against the Government's unilateral progress of the restructuring. However, on 12 December, the FKTU had to return to the KTC in order to obtain details of the development of the restructuring and to submit its views as the Government's plan was increasingly acquiring definite and substantial

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<sup>61</sup> In the end, three leaders were sentenced to imprisonment (one year for two of them, eight months for the other), another leader was sentenced to 8 months imprisonment and a stay of execution for two years while 25 leaders received £5,000 fines (note: six of the 25 had also served three months in prison while awaiting the final judicial decision).

<sup>62</sup> FKTU is the union national centre to which the KFIU belongs.

shape. Therefore, the Special Committee of Financial Restructuring (SCRF) in the KTC was re-activated; the KFIU protested strongly against the second restructuring, including the merger issue between KMB and HB which it claimed was a breach of the July agreement. However, the Ministry of Finance and Economy (MOFE) answered that it was not enforcing or leading the merger, but that it (the merger) was progressing due to the request of big shareholders.

Notwithstanding this denial, there were no subsequent meetings between the union and the employers because the union believed that the Government was indeed behind the merger. Therefore, KFIU had no choice but to call a strike which would force the Government to the negotiation table. When it became apparent that a strike was imminent formal negotiations between the union and the Government (in the person of the Chairman of the FSC), with the Chairman of KTC as mediator, began at the KTC's office at 3 pm, 21 December; the aim was to prevent a strike due to commence formally at 9 am on the following day. In the negotiation, the Government had no justification to reject the union's demands based on the July agreement although it argued that it was not forcing through the restructuring unilaterally. The two parties reached an agreement based on the July agreement at 2 am, 22 December. The contents of the agreement were as follows: 1. According to the July agreement, the merger between KMB and HB should be decided by autonomous negotiation between union and employers. 2. The four insolvent banks would be operated independently although they would be united as subsidiaries of an FHC. 3. Their functions should be reformed by July 2002, after negotiation between union and employers. Redundancies should be decided after negotiation between union and employers. The agreement was regarded as a victory for the KFIU because the decision on the fate of the four bankrupt banks was clearly that which the union had sought, while the merger between KMB and HB was to be decided on the basis of the July agreement. As the media expressed it, the Government had "knelt in front of a union strike" (Cho Sun Daily, 23 December).

Nevertheless, the members of both the KMBU and the HBU refused to accept the outcome of the negotiation. They misunderstood the situation, and were confident that a strike would be as successful as the one held in July 2000. The KFIU leaders were unable to persuade them that this would not be the most effective option; they thus acquiesced to the members' request. In fact, some of the leading figures in the KFIU also thought that the merger could not be prevented unless strike action was taken.

However, the Government, which had received strong criticism from the media over the content of the agreement, saw that by declaring the strike illegal it would not be obliged to honour the agreement. The Government determined to take strong action to break up the strike. As a result, although the KMBU and the HBU remained on strike for the longest time in Korean banking history (seven days), in the end, the KFIU had to call the strike off (following intervention by the riot police) without having prevented the merger.

#### **5.4.4. Strike strategy, evaluation, and learning**

##### **5.4.4.1. Strategy**

The first stage of the KFIU's strike strategy was to induce certain outcomes through the threatened deployment of a general strike by six bank unions. It succeeded in producing a provisional agreement with the Government at the pre-strike stage, but failed to persuade union members of KMB and HB that this was an acceptable result. Therefore, the KFIU was forced by its members to proceed with a general strike before it had devised a comprehensive strike strategy that would lead to a victory. As it was, the union's strategy was to mobilize members from within the banks and endeavour to paralyze the business of both banks for as long as possible.

The KFIU addressed two issues with its strike, that of yet-to-be-announced mergers involving four insolvent banks and that of the merger between two other banks, KMB and HB. In the early stages (i.e. before the actual commencement of the strike), the union had been confident of success on the basis of the commitments contained in the July agreement signed by itself and the Government. Indeed, the union succeeded in making an agreement with the Government before the strike. Although the provisional agreement was acceptable to the union members of the four insolvent banks the members of the KMBU and the HBU, as already noted, rejected it.

Consequently, the KFIU had to proceed with a strike on behalf of just two banks, not six as originally planned. The goal of the strike became the complete cancellation of the KMB/HB merger plan. The KFIU then chose an education centre located away from the city as the venue for the strike in order to avoid a quick intervention from the riot police; they also wished to use the facilities in the centre in the event of a long strike. Lastly, the strike strategy involved the maximum mobilization of internal resources and

the forcing of the Government to cancel the merger by bringing the business of the two banks to a standstill. In addition, the union attempted to enlist the aid of other bank unions (other KFIU branches) by requesting them to also begin strikes from 28 December.

Strike action continued successfully for eight days. The business of the two banks was almost paralyzed for that time. However, the union failed to persuade other bank union branches to strike in support (i.e. undertake secondary strike action). The Government dispersed the striking members by riot police and blocked off all potential places where union members could gather again. As a result of being unable to gather their striking members together the union was forced to end the strike. This failure was the consequence of the absence of a complete strike strategy, one which took into account the response that the Government eventually took. Furthermore, the union mobilization was limited to just the members of the KMBU and the HBU.

#### **5.4.4.2. Evaluation**

Although union members evaluated the strike as a failure the media evaluated as, in equal parts, a success and a failure. The unions had been able to demonstrate their power through the staging of a one-week strike, yet had failed to achieve the central aim of that strike, the cancellation of the merger. Hence, the conclusion that it had been partly a success, partly a failure.

The media concluded that the provisional agreement signed by the Government and the union on the day before the strike was evidence of the former's surrender to the latter (daily newspapers, 22 December). However, the KFIU failed to persuade union members that the outcome had been positive. Instead, the union members insisted that a strike go ahead. As a result, the Government was given a chance to recover their position (and their face).

The KFIU was completely successful in a mobilization of members by identifying the merger plan forced by the Government as an injustice. However, the KFIU had no strategy to achieve the final victory that was desired by the members of the KMBU and the HBU. The KFIU was unable to persuade the members of those two unions to accept the provisional agreement it had made with the Government, even though the union had begun to win concessions through the negotiation process (Table 5-7). The subsequent

strike, although it lasted a week and had a powerful impact on the two banks involved, was eventually unable to achieve its stated central aim, the prevention of the merger. The union had not prepared a strategy to cope with the Government's response (i.e. the intervention by riot police). The failure was a typical model of negative learning, in this case, the product of an over-confidence built up following the success of the strike held in July 2000.

How could the outcome have been different? If the union had been able to overcome 'interpretation gap' and persuade union members of the two banks to accept the agreement of 22 December, which states "the merger between KMB and HB would progress through negotiation between the union and employers", then the union might have been able to produce a clear strategy. As it was, it seemed to be turning its back on a concession. A strike would have been justified if the employers had proceeded with the merger without consulting the union. The union might also have been able to build strong alliances with civic groups and other banks union members if it could have proposed better alternatives to the Government's unilateral merger plan.

A demand<sup>63</sup> oriented by just self-interest and leaders' "political exchange" without prior internal consensus should have been avoided (Pizzorno, 1978). At the same time, if the strike could have identified members' needs with public needs, and thus have drawn on public sympathy and support, the outcome of the strike might have been different.

According to Terry and Ferner (1986: 1-2), union leaders generally prefer to rely on political rather than industrial influence to obtain benefits. Pizzorno (1978) uses "the notion of 'political exchange' to illuminate the trade-offs between economic power and political influence that characterize certain types of union-state relations"<sup>64</sup>. However, the leaders' preference to such political exchange has both costs and benefits for unions regarding on the relationship between leadership and membership. The benefits are to

<sup>63</sup> They demanded the unconditional cancellation of the merger plan without suggesting any condition or alternatives in order to remove the possibility of invisible job insecurity. In fact, management had already promised all employees job security after the merger. This promise was seen to be possible because of both banks being in a healthy financial condition.

<sup>64</sup> Müller-Jentsch (1985:3-33) describes trade unions as "intermediary organizations". He argues that "unions in advanced capitalist societies have been under structural constraints to pursue a policy of intermediation between the opposing interests of labour and capital. The unions' politics are result of the pragmatic resolution of differences between the interests of both sides and this is derived the historical changes in the position and functions of trade unions" (such as the need of pursuit of common interests of members due to the amalgamation of unions, the bureaucratization of administration due to centralization of decision-making, and the concentration of external representation due to the extension of state social policy).

be seen in the possibility of modifying market outcomes under conditions in which relying on free collective bargaining would be less fruitful or more risky. The costs are that notably "the limitation of autonomy in the industrial relations arena and the moderation involved in political exchange are likely to put a strain on unions' relations with the rank members" (Regini, 1984: 130).

Regini (1984) notes that "the leadership is aware both of the benefits of political exchange and of the corresponding need for moderation and control of the rank members. But, the benefits (and the consequent reasons for moderation) may be less apparent to the membership at large. It is because such benefits are on the whole long-term and it is therefore hard for the membership to judge if a good bargain has been struck on the political exchange. Faced with the immediate day-to-day cost-benefit calculus at the work place, the union membership and local activists may put a very high discount-rate on the long-term future benefits to be obtained by political exchange, especially when these become less certain" (Terry and Ferner, 1986:1).

Thus, there may be "an interpretation gap between leaders and other levels, and the danger of a breakdown in representation". Namely, relationships between the leadership and membership are seen as crucial when unions indulge in political exchange. It means that more attention should be paid to "the strategies employed in overcoming the interpretation gap and to the membership's perception of the benefits to be derived from the political exchange" (Ibid, 1-2). In other words, unions need the active seeking of an internal consensus within the democratic framework of the union. This involves a continual search for compromise and agreement. The December 2000 strike case provides us with an opportunity to explore what happens when political exchange breakdown.

#### **5.4.4.3. Learning**

The failure of the strike was due partly to a failure to learn positively from the experience of previous strikes. The union had then attained a successful agreement regarding the second restructuring of the banking sector. The agreement was signed by delegates from the union, the Government, and employers at the Korea Tripartite Commission. Through this agreement (which followed a strike in which 20,000 bank employees participated) the union managed to change the direction of national financial

policy. The morale of the union members was lifted greatly after the victory of the July strike. On the negative side, their self-confidence also produced an over-confidence.

After the July strike, the union leaders appraised the strike through a meeting with union officials. From this meeting they learned the importance of social justification for strike success as well as identifying the difficulties of mobilizing industry-wide support from union branches with different interests each other (Section 7.4.1.2). This latter problem appeared after several branches, such as Seoul Bank Union branch, seceded in the middle of the strike, while others, such as KMBU and HBU, even declined to join the strike. However, the union did not share these findings with the rank and file, nor did they store them for future use (Huber, 1991). Argyris and Schön (1978: 5) describe such a process as inhibitory learning loops: a self-reinforcing cycle, in which errors are reinforced, or in which group and inter-group dynamics enforce conditions for error because of ambiguity or vagueness of interpretation of problems.

The union members of KMB and HB did not participate in the July strike because their banks were healthy, and thus did not require an injection of public funds; one of the consequences was that other bank unions did not support them when they needed it. The union members of KMB and HB were encouraged only indirectly by the July strike victory achieved by other bank unions. More significantly, they did not know or experience the difficulties of a strike. They thus did not learn from it. Consequently, dissatisfied with the negotiation outcome that the leaders of KFIU had obtained they demanded that a strike go ahead, confident that it would succeed yet without a well thought-out strategy. Their confidence was derived from a mis-placed over-confidence.

## 5.5. Strike at Cho Hung Bank in June 2003

Under the KFIU's command, the Cho Hung Bank Union (CHBU<sup>65</sup>) called a strike in an attempt to prevent the sale of Cho Hung Bank (CHB) to Shin Han Bank (SHB), because the sale meant a merger that would lead to mass layoffs. In addition, the sale was a breach of an agreement of July 2000 contracted by the Government and the KFIU

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<sup>65</sup> The CHBU is a branch of the KFIU. It is the only union at CHB as Korean labour law prohibits union pluralism at enterprise level until the end of 2006.

(Additional clause "b" in the Article 2: Table 5-4). The KFIU and its branch at CHB were not only opposed to the sale but were prepared to act against it.

### **5.5.1. Background of strike**

In August 2002, the Government announced a plan to privatize CHB, then owned by the Government, and began to accept applications of intentions to take over the business. The Shin Han Financial Group (SHG), parent company of Shin Han Bank (SHB), submitted an application of takeover intention on 23 October 2002. SHG's plan was to merge CHB and SHB, a scenario which upset all employees, including management, of CHB. The merger would be unique, as the country's youngest bank had taken over its oldest bank. CHB was the nation's fourth largest lender, and had 6,557 regular employees and assets valued at £32.3 billion, while SHB was the fifth largest lender, employing 4,458 regular staff and having assets valued at £32.5 billion (Table 5-8). Ironically, the takeover bid came just a few years after an attempt by CHB to take over SHB. CHB was forced to be sold off because it had accumulated large non-performing loans after decades of heavy financing of the country's industrial growth. Its difficulties derived from the large number of firms made bankrupt as a result of the national financial crisis.

CHB was Korea's first bank, commencing business in 1897. However, due to the national financial crisis in 1997, the Government gained 80 percent ownership of the bank after injecting 2.7 trillion won (£1.4 billion) of public funds. It then promised to re-privatize the bank in a way that did not transfer management of the bank provided the bank fulfilled the Government's demands of management normalization (Daily Economy, 9 November 2000). Motivated by this promise, CHB's management and employees cooperated to bring the bank back to health. The bank implemented aggressive measures to improve managerial transparency and operational efficiency. It had reduced the number of its staff by about 40 percent and closed more than a hundred branches by the end of 1999. By the following year, the bank had returned to profitability. The bank was lauded as one of the most successfully restructured banks in Korea (Korea Economy Daily, 29 October 2002).

On 13 August 2002, however, the Government suddenly announced its desire to find a buyer for its entire holding, giving as its reasons the need to maximize the retrieval of

public funds and to complete the second restructuring of the financial sector, a central policy of which was the creation, by mergers, of larger banks. The reasons seemed very reasonable, but, in fact, the announcement of the sale was inconsistent with an earlier schedule, in which the Government had said it would sell banks' shares owned by the Government gradually until 2005 or 2006 in order to minimize the influence of the market and, in particular, it would not decrease the ratio of CHB's shares owned by the government to below 50 percent until the first half of 2003. However, the Ministry of Finance and Economy argued that it would be better if the government could sell all shares of CHB as soon as possible when buyers appear because the prospects for the economy and stock market this year were not good (Korea Economy Daily, 29 October 2002).

The KFIU and the CHBU were strongly opposed to the bank being sold in a hurry, and to a single buyer. Instead, the union required a gradual sale over a few years to a mix of strategic and financial investors on the basis of the Government's original plan. The union cited a number of reasons for its demand. First, if the Government proceeded with a too-hasty sale, because the market was weak at the time it would be a 'dirt-cheap' sale for the profit of specific investors. Thus, it would be a poor financial return for the taxpayers, and instigate objections of special favouritism. Secondly, if the Government persisted with its bank large-sizing policy through merger and acquisition (M&A) by banks owned by foreign investors, the monopolistic centralization of the financial industry and the subordination of domestic capital to foreign capital would be deepened. Furthermore, those banks would pursue maximum short-term profits for foreign investors, weakening the Government's ability to execute independent financial policy for the interest of the nation. Thirdly, the Government had to honour the July agreement to which it had been a signatory. The Government had promised that it would permit independent survival to those banks which demonstrated management normalization (Table 5-4). Finally, although its formal demand was the independent survival of CHB, the biggest reason for the union's opposition was its concern that the merger would lead to mass-layoffs.

## 5.5.2. Mobilization

### 5.5.2.1. Action before strike

The CHBU undertook various activities and collective actions in order to prevent the sale of CHB between October 2002 and June 2003, when the decision to strike was taken. The CHBU, whose 5400 members represented 70 percent of the bank's employees, had not undertaken any collective action in the past (Table 5-8).

However, upon learning of the Government's intentions to sell its entire holdings in the bank, the union's first reaction was to confiscate loan files of CHB to try to thwart the process of actual inspection of files by potential buyers and to write multiple memos (to explain the unreasonableness of the sale of CHB) to the Government, to lobby groups, and to the press on 31 October. These detailed the future objectives of CHB and the problems of too much consolidation in the banking industry, and argued that market forces<sup>66</sup>, not government policy<sup>67</sup>, should be allowed to determine the value of the bank's operations. They essentially argued that even small banks could compete as long as they were well capitalized and followed prudent risk and credit norms (KILS, 2004). As preparation for a strike against the sale to SHB, the union collected £2,500,000 as a strike fund from members (£400 per person); 5,400 union members also handed in their resignations (from the bank) to the union as a determination for struggle. The union and the KFIU held 20 big and small rallies against the sale of CHB between November 2002 and June 2003. More than 10,000 KFIU members participated in the rallies, which included a national labour rally on 3 November, the Cho Hung family rally held six days later, on 9 November, and a financial labour rally on 17 May 2003. Two thousand CHBU members (male and female) and the President of the KCTU had shaved their hair to demonstrate the strength of their determination for struggle at the rallies. Moreover, employees in CHB donated blood to Red Cross as a sign of opposition to the sale on 5 December 2002.

In addition, the union sought public support through the dissemination of information. Union members distributed approximately 1,000,000 leaflets to the public on the street, 500 union Cyber fighters everyday distributed the union's points of view to the media,

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<sup>66</sup> The union thought that the CHB could be sold to investors having no bank that could offer better price, once the government put the public bidding of the bank. The union reasoned that such a sale would avoid a merger with another bank and preserve the historical bank's identity.

<sup>67</sup> Bank large-sizing policy by merger between banks.

political parties, civic groups, and government institutions through Internet, and the union inserted an advertisement in newspapers, informing readers of the injustice of the sale of CHB. The union also released a petition, signed by 1,000,000 citizens, opposing the sale. In all, the union spent about £1,000,000 on public information activities (KILS, 2004).

There was a lot of support for union events from individuals and groups from outside the bank. For example, ex-presidents and ex-executives of CHB were among those who signed the petition against the sale. A group of small shareholders of CHB applied for a motion against the sale of the bank to the court, arguing that the sale was damaging to the rights of shareholders. A committee of 40 civic groups opposed to the sale was established. As a result of such mobilizations led by the KFIU and the CHBU, Han Na La party (the main opposition party) also declared its opposition to the sale. Even a presidential candidate of the ruling party proposed the postponement of the sale till after the presidential election. Consequently, the sale of CHB was postponed indefinitely.

On 14 January, the newly elected Korean President met union leaders to hear the union's viewpoint. Following this meeting, he proposed a close examination of the sale of CHB by an accounting firm, a firm which the union agreed would produce an impartial report. The examination lasted for three months. Following the firm's proposal that the sale should proceed, the President announced that CHB would be sold, eventually. However, the union raised several objections, and requested a meeting with the President; the request was denied. Thus, the union decided that it had no choice but to call a strike. As the decision to sell appeared imminent, the CHBU announced that the strike would commence on 18 June.

Two days before going on strike, the union delegates marched to the Blue House (the Presidential Palace) to deliver the resignations of all 7,224 employees, evidence of their determination to strike. However, they were unable to enter into the palace because riot police blocked them in front of the building. They placed the resignations on the ground in front of the Blue House, then left (afterwards, the police returned them to the union). On the day before the strike, another 2,000 union members shaved their hair as a symbol of support for the industrial action while the head of the CHBU commenced a hunger strike. In all, the total number of participants who had now shaved their hair was about 4,000 (out of 5,446 union members). The CHBU gathered 302 (out of 329)

operators working for IT centres at a secret venue in order to strengthen their determination of participation in strike. The union believed that their participation would be a critical factor in the strike's success. On the evening of 17 June (the eve of the strike), 2,500 union members working at CHB branches from around Seoul (the nation's capital) held a rally, followed by a sit-down protest, in the plaza in which the bank's headquarters are situated. They stayed all night, waiting for other members. On this day, bank management had prepared emergency measures in order to minimize the anticipated damage to business caused by the strike. They organized teams comprising four to six staff (one chief, one security, and two irregular employees) for each branch and dispatched 35 emergency staff for the operation of IT centres (located outside head office). The Government dispatched 220 riot police and six staff of the FSC in order to protect the IT centres because of a concern that union members might occupy the centres, and bring bank operations to a halt (MeIL Economy Daily, 18 June 2003).

#### **5.5.2.2. The strike**

The strike lasted for five days, from Wednesday, 18 June, to Sunday, 22 June. During this period, the bank's business was almost paralyzed due to the participation of almost all of its employees, including IT operators except 20 core operators and irregular employees, in the strike. On the morning of the commencement of the strike on 18 June, 5,000 union members gathered at the bank's headquarter; they also slept in the plaza of the bank's headquarter building and ate their meals at a refectory inside the bank for the duration of the strike. Almost all bank business stopped. One hundred of the 547 branches were closed, while other branches, with just four to five staff<sup>68</sup> (non-union members), were able to deal only with emergency business. The FSC dispatched their 90 staff to support the business of CHB. The prosecution sent writs of summons, on the grounds that the strike was illegal (because the union had not followed the correct legal process for a strike and the strike disturbed the business of bank), to 16 union leaders. A leading conservative newspaper (Cho Sun Daily, 18 June 2003) urged the Government to crack down strongly on the strike. The newspaper argued that the strike would hurt international credibility and discourage investors, leading to a slowing of the rate of national economic development.

On the second day of the strike, 19 June, the number of strikers increased to 6,000. Even 800 irregular employees (non-union members) participated in the strike. The bank

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<sup>68</sup> On average, each branch employs about 20 staff.

said that 170 branches of its 547 branches were closed on that day (the union claimed that 400 branches were closed). As the amount of money drawn by jittery depositors between 16 and 18 June reached £1.5 billion, the Bank of Korea (BOK), the central bank, injected £1 billion as emergency funds into CHB to stave off its possible liquidity squeeze. The central bank said it supplied funds under reserve repurchase agreements to prevent CHB from causing risks to the overall financial systems. "If CHB suffers from funds shortage despite the repo-supply, we will encourage other banks to extend call loans to CHB. If the situation worsens nevertheless we will provide other kinds of loans for liquidity management", a BOK official said (Korea Herald, 20 June 2003). The KFIU announced that members of all of its branch unions would be balloted on 22 June to ascertain if they would also strike in support of the CHBU's action. Members of a committee comprising 51 civic groups supporting the strike visited the strike headquarters, and encouraged strikers. They argued that "the Government is trying to sell CHB for its scrap value due to trade pressure from America. Thus, the Government has to stop the sale plan of CHB at once" (Han Kye Rae Daily, 20 June 2003). In the evening, the union additionally withdrew 20 core operators from IT centres in order to increase the pressure on the Government and SHG. In all, 325 out of a total of 329 IT operators came to participate in the strike. It meant that the IT network would, sooner or latter, cease to function; this was a real threat to the Government and SHG. As the situation worsened, negotiations between delegates from the union, the buyer and the Government began at 11.30 pm. However, the first meeting was simply used by each party to ascertain knowledge about the others, and failed to produce any outcome. It finished a few hours later, at 3 am.

On the third day of the strike, 20 June, more branches were closed. The bank announced that 249 (out of 547) branches were closed and that deposits of £3.15 billion (about 15 percent of the bank's total outstanding deposit of £24.5 billion) had been withdrawn by customers since the beginning of the strike (Me IL Economy Daily, 21 June 2003). Furthermore, problems with the IT network began to occur at about noon, leading to fears that the entire network might be brought to a standstill sooner or later. The union decided to allow 20 IT staff to return to work in order to avoid such a disaster. According to a Vice-President of the CHBU, "the union decided to let them return to work to avoid a downing of IT operation that could cause an enormous inconvenience to customers" (Korea Economy Daily, 21 June 2003). This gesture by the union strengthened its position at the negotiation table. The second meeting started at 2 am, 21

June. All the strike issues, except that concerning the CEO of the merged bank, were discussed. Finally, at 3 am, 22 June, the delegates of the three parties reached an agreement. After receiving a vote of support for the agreement from its members the union announced that the strike was over, that all employees would return to work that day and that bank operations would be normalized. It was the fifth day of the strike.

The consequences of the strike were that the union achieved almost that it had set out to do, with the exception of preventing the sale of CHB to SHG. The media's evaluation was that the results of the negotiations constituted a one-sided victory for the union.

One reporter wrote his impression of the strike as follows:

It was a very hard four nights and five days. CHB union members had to lie down on a cold concrete floor during the strike, after giving up their comfortable homes and friendly workplaces. Approximately 70 reporters who stayed with them also had to endure these conditions. The reporters were extremely nervous during the night of the final stages of negotiations. The union members, after several crises during the strike, decided to leave. Although there were sighs of grief and regrets the strikers were comforted by the thought that they could at last go home and rest. Many of the female strikers were in tears, disappointed with the agreement, which they felt was not the best outcome. Experienced bankers were also sobbing, because of the fact that their bank, with its 106-year history, would disappear. The strong head of the CHBU could not bear the sobbing as well, and was unable to finish the last fighting song. He looked up at the sky and wiped away his tears. He appraised the strike as a half success. He told the strikers that the remaining half would be won after they returned to work. I wish them that whole success so that the hardness of those five days (which felt like five years) would not be in vain (Money Today Daily, 23 June 2003).

#### **5.5.2.3. Effect of the strike**

As a result of the strike, the union gained, in addition to a victory, two added effects related to union activity. First, members of the CHBU gained confidence in the effectiveness of strikes, and obtained an increased consciousness of labour and camaraderie through participation in a battle which had lasted, in all, for eight months. Almost all of the rank-and-file had had no previous direct experience of a strike. For eight months they had participated in a variety of activities, such as distribution of leaflets to the public, submissions of resignation, (symbolic) haircuts, blood donations, and sit-in strikes. Therefore, they learned much and acquired a sense of confidence in their own power to contest decisions made by those in authority. In addition, the staging

of a successful strike at CHB provided both an inspirational precedent and a learning opportunity for union members employed in other banks, many of whom were pessimistic following the failure of strikes at KMB and HB in 2000.

Secondly, the strike became an opportunity to establish a proper relationship, with clearly defined roles, between leaders of the KFIU and leaders of branch unions which would prove beneficial should another branch union elect to take similar action. The leaders of the KFIU and the branch unions learned that it was necessary, first, to agree upon a strategy of negotiation and action in advance before deciding to go on strike, and, secondly, they had to divide their roles and responsibilities during a strike (although it was necessary to discuss every critical point during the strike). It was also felt that the leaders of the KFIU should assume the role of negotiators while the leaders of the branch union should be responsible for the mobilization of members. The reasons for such a division were simple; the leaders of the KFIU are negotiation professionals while the leaders of the branch union are more familiar with their branch members as people and the specifics of their work conditions. This division was employed during the CHB strike, and was a key factor in its success. In the cases of the earlier strikes, at KMB and HB, the KFIU representatives failed to adequately work with members of the KMBU and HBU on the negotiation strategy. Thus, they had tasted bitter defeat.

### **5.5.3. Negotiation**

The union, the Government and SHG held three meetings between 11.30 pm, 19 June, the second day of the strike, and 6 am, 22 June, the fifth day of the strike. An agreement was reached after these meetings; the media appraised the result as a victory of union.

Negotiations commenced as the impact on the IT network began to affect the bank's operations and the withdrawal of considerable deposits by customers drained the bank of much of its assets. A strong inducement to negotiation was this participation in the strike by union members of IT centres as well as that of almost all of the bank's employees. Almost all of the staff (325 out of a total of 329) in IT centres joined in the strike; the decline of IT capability began to occur a mere two days after they joined the strike, on its third day, 20 June. In total, almost all CHB business was paralyzed as a result of the strike.

The first negotiation meeting began at 11.30 pm, 19 June. The Minister of Finance and Economy and the President of the Korea Asset Management Corporation (KAMC)<sup>69</sup> were the Government's delegates, the Chairman of SHG<sup>70</sup> and President of SHB represented the buyer, and the heads of the KFTU and the KFIU served as delegates of the union. At the negotiation, delegates of the union requested that the Minister cancel the planned sale to SHG. The minister responded that the sale had already been finalized, but that he would support the union in its efforts to gain good outcomes in the negotiations with SHG regarding employment security.

The union delegates then asked the representatives of SHG if they (SHG) could merge CHB and SHB equally, immediately they acquired the former<sup>71</sup>. In addition, the union asked if the use of the CHB brand could be preserved in the name of the merged bank, if full employment security for all employees could be guaranteed, for the appointment of a person from CHB as President of the merged bank, and for the composition of a merger preparation committee comprising five representatives each from CHB and SHB. The delegates of SHG answered the questions as follows: 1. there would be a gradual merger over a period of three years on the grounds that an immediate merger would not be successful because of differences of organizational culture and personal productivity. 2. Employment security and independent management by CHB would be guaranteed for two years. 3. An executive of SHB would be appointed as President of the merged bank. 4. CHB staff would be represented on the merger preparation committee. The parties were unable to reach an agreement at the first meeting, which ended at 3.30 am, 20 June. This was not surprising as the first meeting was just an engagement in which each party announced a wish list and undertook a reconnaissance of each other (Me IL Economy Daily, 21 June 2003).

Parts of the IT network began to break down after noon on 20 June. As a result, a delegate of the Government met a delegate of the union privately that evening, the former advising the latter that the Government would have no choice but to send riot police to break up strikers on 22 June because of the possibility of further, if not complete, breakdown of the IT network. The cessation of the functioning of the IT

<sup>69</sup> The Korea Asset Management Corporation KAMC is responsible for the process (including the actual sales) of the privatization of national enterprises.

<sup>70</sup> SHG is a financial holding company which includes SHB and other financial institutions.

<sup>71</sup> This was a tactical manoeuvre by the union to strengthen its justification for a strike and improve its bargaining position. The union believed that an equal merger, one which would ensure that there would be no discrimination against CHB, immediately after the sale would actually be impossible for SHG to accept.

network was, potentially, a major problem for all parties. The Government worried about the impact on other banks also connected to the network; the buyer was concerned about more damages to deposit levels; finally, the union also could not help agonizing about the breakdown of the IT network as it increased the possibility of repression by riot police. The KFIU also had painful memories from a strike failure due to forced dispersal by the riot police at KMB in December 2000. All parties, therefore, were strongly motivated for a second meeting, which commenced at 2 am, 21 June. Almost all of the issues were discussed except that of the identity of the CEO of the merged bank. However, they could not produce an agreement. Finally, after marathon talks from the late evening (9.45 pm), 21 June, the delegates of the three parties reached an agreement at 2.10 am 22 June.

After 59 percent of the union members endorsed the agreement in a vote, the head of the KFIU, the President of the SHB and the President of the Korea Asset Management Corporation, representing the three parties, signed a 10-point agreement, wrapping up the tripartite negotiation brokered by the Government. The CHBU announced that all employees would return to work that day and that bank operations would be normalized as soon as possible. The contents of the agreement can be summarized as follows: 1. CHB will be an independent firm for three years within the Shin Han Holding Company. 2. CHB will be operated independently for three years. 3. The Chief Executive of CHB will be someone from within CHB for three years. 4. The CHB brand will continue to be used for three years. 5. The details of the merger will be formulated by a merger preparation committee during the first two years. 6. CHB and SHB will each contribute one-half of the membership of the committee of merger preparation. 7. Job security of all employees of CHB will be guaranteed. 8. The wages of CHB employees will be improved to the level of SHB wages within three years (meaning that the wages of CHB employees would increase by about 30 percent). 9. Fifty percent of the executives of the Shin Han Holding Company will be from SHB, with the other half from CHB. 10. An equal merger will be a principle if the committee of merger preparation decides upon a merger. In addition, the Government and employers promised the union, in the agreement, that they would try to minimize penal punishment or assign any civil responsibility related to the illegal strike to the union (Table 5-9). The agreement meant that the union actually gained almost all of its demands except that of the cancellation of the sale to SHG itself.

The achievements of the CHB employees show clearly how effective strike action can be. One can compare the fate of CHB with that of Seoul Bank, merged six months earlier with Ha Na Bank without any dispute. CHB and Seoul Bank, both insolvent because of the national financial crisis, and both the recipients of public funds, had been sold by the Government in line with its policy of privatization and bank large-sizing. First, CHB employees obtained a promise of a phased wage increase (of 30 percent) bringing them to the level of SHB employees. On the other hand, Seoul Bank employees, earning 30-40 percent less than Ha Na Bank employees, were unable to gain any wage increase. Secondly, CHB employees received a promise of job security for three years, while Seoul Bank had to agree to an immediate staff reduction of 15 percent (519 out of 3840). Thirdly, CHB attained a promise that it would be able to operate independently of SHB for three years, while Seoul Bank was merged with Ha Na Bank just three months after the merger contract was signed (Cho Sun Daily, 23 June 2003).

After signing the agreement, delegates of the union, the Government, and SHG went to a restaurant to have breakfast together. After that meal, the head of the CHBU told reporters that the union had achieved substantial goals although it had failed to prevent the Government's sale of CHB. He concluded that the Government had exercised its influence substantially in the negotiation process, and that it (the union) had at least prevented what could have been a considerable catastrophe. The head of the KFTU said that the negotiations had led to an early settlement because the effects of an IT network breakdown presented a major burden to the Government, and SHG were concerned by the loss of any advantages of acquisition resulting from a prolonged strike. The Government played the role of mediator sincerely. The Minister of Finance and Economy, who mediated the negotiation, said that it had been very difficult to induce the union to participate in the negotiation under the premise of the sale of CHB. He added that he had tried to solve the labour problem under a paradigm of talking and compromise. The Chairman of SHG said that "SHG would not discriminate between SHB and CHB as a one real child and a child born out of wedlock". He added that both had to try to produce synergy effects together (Korea Economy Daily, 23 June 2003).

Although the media interpreted the results of the negotiation as a victory for the CHBU the union position was, in fact, endorsed by just 59 percent of its members. What this meant was that the independent survival of CHB was more important for members than any substantial outcomes.

## **5.5.4. Strategy, evaluation and learning**

### **5.5.4.1. Strategy**

The union's strategy was to claim the justification to fight, to organize to the utmost various resources from inside and outside the organization, and to exploit a favourable political environment to achieve its demands.

First, the union's mobilization strategy was to make aware to its members and the general public that the Government's sale of CHB was unjust. To do that, the union argued the following reasons for mobilization: 1. the hasty sale of CHB was a breach of the July agreement; the Government had promised that it would permit the independent survival of those banks that demonstrated management normalization. 2. The sale to SHG was seriously undervalued and motivated by political reasons. 3. The sale of the nation's oldest bank (it was 106-years-old) to a bank owned by foreign investors would be a relinquishment of national financial sovereignty. Therefore, the union's fighting motto was "opposition to a forced merger and desperate defence of a historically important national bank".

Secondly, the union leaders started to mobilize their members towards a strike against the sale of CHB on the basis that immediate and strong measures would be most effective in blocking it. First of all, union leaders confiscated loan files to try to thwart the due-diligence process as soon as they heard of the Government's intentions to sell its entire holdings in the bank (29 October). The next steps were as follows: the holding of a conference of representatives to decide on fight measures, a rally in front of the FSC, the start of the symbolic wearing of casual clothing to work by members (1 November), a large rally and (symbolic) haircutting by representatives to demonstrate commitment to the cause (9 November), a strike vote (12 November), the collection of a strike fund and the submission of resignations by all employees (17 November), another large rally and cutting of hair by union members (22 November), and, blood donation by all employees (5 December). There were also other measures designed for successful mobilization of employees before the commencement of the strike (Section 5.5.2).

Thirdly, the union exploited a favourable political situation, the imminent Presidential election of 15 December. The union argued that the sale of CHB was hurried and tantamount to a giveaway, a ploy by the Government to show the great success of the

restructuring of the financial sector. Not only was the sale poor business (because it was being sold so cheaply) but the union contended that there was a political conspiracy related to the sale, in that it would benefit a specific buyer. The main opposition party was able to exploit this allegation. A presidential candidate of the ruling party also asked the Government to delay the sale until after the election. Afterwards, the elected President contributed to the success of mobilization. He had been an advisor to trade unions in the past as a human rights lawyer. In addition, the KFIU helped him to win at the Primary Election by encouraging members to vote (Section 7.5.1.2). Consequently, the union was able to force the Minister of Finance and the Economy to the negotiations, where he was to play the role of mediator between the union and SHG until the end.

Fourthly, the union actively sought the cooperation of outsider groups, such as the Citizen Commission (comprising 51 civic groups), a small shareholders group formed specifically to oppose the sale, and a group of ex-executives and ex-employees of the bank to join it in its fight against the sale of CHB. This support boosted the morale of union members and further justified the rightness of their actions.

Fifthly, the union's tactic was to occupy the bank's headquarters and to control the operation of IT centres, measures calculated to bring the other parties to the negotiation table as soon as possible. The union succeeded in encouraging 6,000 (i.e. almost all) employees, including IT operators and irregular employees (non-union members), to participate in the strike. The participation of IT staff, in particular, became a main factor in the strike's success as the breakdown of the IT network seriously worried the banks and the Government. Therefore, the union's strategy involved the use of traditional strike methods but with twenty-first century information technologies.

Lastly, the union kept the public informed of the injustice of the sale of CHB. Union members distributed a total of 1,000,000 leaflets to the public on the street as well as placing advertisements in newspapers during the strike. In addition, 500 cyber fighters distributed union's views through the Internet. As a result of those strategies, the union was able to gain successful outcomes from its mobilization strategy even though its strike was illegal.

#### **5.5.4.2. Evaluation**

The strike was appraised as a big success by the media and union leaders. Nevertheless, some CHB union members considered the result unsatisfactory because the union failed to attain its original goal, the cancellation of the sale. First, the choice of strike justification (demanding the fulfilment of the Government's promise of independent survival) was appraised as the proper one with which to mobilize resources (from inside and outside) and to secure people's understanding of the strike (KILS, 2004). Nevertheless, the conservative media outlets accused the strikers of selfishness, saying that they had cost the country money and seriously inconvenienced customers in order to preserve their own job security (Cho Sun Daily and Korea Times, 25 June 2003).

Secondly, the resource mobilization was extremely successful. Nearly all employees (6,000 out of a total of 7,721) participated in the strike. The union showed its real power in almost bringing bank business to a halt and in substantially impeding the activity of IT centres. All evaluators, including the media, expressed surprise at the union's organizational power (Cho Sun Daily, 24 June 2003). The outside resource mobilization, such as the use of the media, civic groups, the group of small shareholders, the ex-executives and ex-employees of CHB, and the petition containing 1,000,000 signatures, was very useful in both communicating the reasons for the strike to the general public and encouraging internal mobilization. A union official mobilizing union members of IT centres said;

We planned the strike of IT centres from the first stage of the strike because we thought that just paralysis of branches' business would not be enough to drag the Government to negotiation. Our fate depended on the staff of IT centres also participating. We saw the failure of strike at KMB/HB. It was because they failed to mobilize the IT centres (Chung Ahang Daily, 23 June 2003).

Thirdly, the use of political opportunity was effective in the accumulation of a justification for the strike, in postponing the sale, and in making the strike successful. The union could let people know its justification through various public information activities and collective activities during the period of the Presidential Election. In addition, helping the President at the Primary Election also proved advantageous to the union. The net result was that the Government could not crack down on the strike easily by force.

Fourthly, the agreement contained all that the union had sought. The cancellation of the sale of CHB had not been possible because a precondition for the negotiations to even take place had been that the union agreed to the sale to SHG. Nevertheless, the agreement contained guarantees of full employment security, a wage increase, and other advantages flowing from the merger (Section 5.5.3). However, the union could obtain support from just 59 percent of the members to the agreement. This was because the central issue for the members (and, in reality, the union) was the cancellation of the sale; in that sense, the union failed to achieve its main objective.

A union member who voted for the agreement argued:

I thought we could have achieved our aim of the cancellation of the sale until the final decision of the sale was announced. However, I had to think of the whole situation of our position after the announcement of the sale. So I voted for the agreement because I thought that the cancellation of sale was difficult in reality and that we had no choice but to consider the second option (KISL, 2004).

On the other hand, a union member who voted against the agreement stated

A lot of young members thought that we could attain our aim of having the sale cancelled. They had been encouraged by a belief that a complete strike, including a complete paralysis of the IT network, would have eventuated if the strike had continued for one or two more days. In addition, we thought that it would be better if we let our fate be determined by the strike (whether we won or lost) rather than finishing the strike noncommittally (KISL, 2004).

Mobilization theorists argue that unions have to inspire a sense of injustice to members in order inspire them to collective action (McAdam, 1987, Kelly, 1998). The CHBU argued that the sale was unjust, and therefore justified strike action, after first demanding the cancellation of the sale in the negotiation. However, delegates had to make a choice between substantial demands and justifiable demands in the negotiation on the basis of the conditions that existed. After they reached a provisional agreement, they explained the negotiation outcomes and the overall situation in which the negotiation had taken place to members. However, they could not persuade all members. As a result, 41 percent of members voted against the outcomes of the negotiations. At the end of negotiations, it is always most important for delegates to know how to communicate results to the rank-and-file, and persuade them of the most appropriate next step. This can be difficult as it requires not only the skills of the negotiators but favourable conditions of time and place. What makes it especially

difficult is that delegates may sometimes need to deceive not only the other parties involved in the negotiation process, but even their own members in order to attain the best possible outcomes.

The outcome of the strike was generally evaluated as follows: The union gained many benefits, including job security, although it failed to stop the sale from proceeding. SHG also succeeded in gaining CHB before the latter's deposits were further drained. Finally, the Government gained a justification to proceed with the second restructuring of the banking sector (i.e. its bank large-sizing policy and privatization). A leading progressive daily newspaper, Han Gye Rea Daily (23 June), stated that:

The outcome was the best for all the parties – the union, the Government, and SHG – as each had done its best during the dispute. The union had made the right decision for its members and CHB by transferring its demand from the cancellation of the sale to the gaining of real benefits. Although the Government's policy had been changed<sup>72</sup>, there was no justification for the union's opposition to the sale of CHB as a way of the Government generating public funds.

On the other hand, the conservative newspaper, the Cho Sun Daily (23 June), lamented that:

The outcome of the strike confirmed again the unions' wrong belief that collective actions were the most effective measures to gain their demands. First of all, there will remain, as an aftermath, the Government's agreement to the union's involvement in management (issues of managerial rights). The consequence is that management will now have to obtain agreement from unions first whenever they pursue a merger or restructuring.

The Korea Economy Daily (23 June) reported:

Analysts believe further conflicts between the two banks will occur because the terms of the agreement are abstract and vague (referring to Agreement Clause 5; "the details of the merger will be formulated by a merger preparation committee during the first two years"; CHBU thought that the individual survival of CHB was still possible because the details of the merger included the idea that a merger between the two banks was not yet settled. On the other hand, SHG believed that the merger between SHB and CHB was confirmed). In addition, many sensitive issues were not discussed during negotiations. Particularly, they raise doubts about the synergy effects of the reluctant marriage between the two banks. They say that SHG accepted most of the CHBU's demands, a backward step in terms of financial restructuring. Critics say that SHG gave away too much to the union. Furthermore, the outcome seems likely to

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<sup>72</sup> This refers to the Government's change of policy from a promise of independent operation of CHB in the July agreement it had signed with the KFIU to the plan to merge the bank with SHB.

embolden organized labour at other companies. It is reasonable to expect more strikes in the months ahead.

#### **5.5.4.3. Learning**

The success of the strike derived, in part, from a positive learning of the failure of the strike at KMB and HB in December 2000, in which the KFIU experienced a bitter defeat. Although the union had then overseen a strike which had lasted for eight days and almost paralyzed bank business it had ultimately failed to achieve its objectives and had been broken up by riot police. Essentially, this failure was due to a poorly thought-out strategy. Consequently, 29 union officials were prosecuted, and the militant activity of the union was daunted for over two years (i.e. until the CBHU went on strike again).

On the other hand, the failure presented the KFIU and the CHBU with a learning opportunity. They learnt that membership mobilization alone was not enough if it was to prevail against the Government. They needed to prepare a more thorough strategy, mobilizing support from within and outside the union, and to actively exploit political opportunities. The lesson also came from an experience of the July 2000 strike; then, by the use of such strategies, the union had won a historic victory. They therefore tried to develop the justification for their action, to deploy various collective actions before going on strike in order to collect the maximum amount of resources for mobilization, and to use political opportunities arising from the Presidential election. At last, when they had to go on strike they concentrated almost all internal resources, including IT operators and irregular employees, on forcing the Government to negotiate with them. Then, once negotiations had begun they focused on substantial objects rather than justifiable ones. Therefore, they could attain their goals and did not suffer any significant damage although their strike was illegal. Their thorough and flexible strategy for victory was thus the result of positive learning (i.e. a careful analysis of the failure of KMB's strike and the success of the July strike).

## 5.6. Conclusion

Trade unions conducted four strikes in the Korean banking sector between 1998 and 2003, all in response to the Government's restructuring of that sector. The unions were more successful in two strikes than two others. On the first occasion, the unions of nine insolvent banks mandated their right of negotiation to the KFFU, and went on strike in September 1998. The strike was called in response to the Government's order to the banks that they reduce their staff numbers as a precondition for the injection of public funds. Approximately 20,000 members attended a rally on the eve of the strike. However, the strikers could not maintain unity as two big bank unions chose to withdraw from the strike on the following morning (i.e. the day of the strike). Thus, the strikers could not attain a successful result although they did manage to reduce by 10 percent the original number of staff that would lose their jobs (40-50 percent). Union members appraised the result as a failure (although the media appraised it as half success/half failure). It was because the unions had had no experience of such an industry-wide strike as the union form at the time was the enterprise union (i.e. each bank was represented by its own union, which negotiated directly with the employer). Consequently, bank unions' unity was weak, and susceptible to pressure from individual employers who could appeal to the self-interest of its staff.

The second strike, in July 2000, was called in response to the Government's second restructuring. Earlier in 2000, the union form had been transformed from enterprise unions to an industrial union. Preparation for the strike was also more thorough than it had been in 1998. A variety of collective actions were undertaken before the actual strike. These included the holding of big rallies, a strike vote, the collection of strike funds, the wearing of casual clothing to work, the submission of leave of absence requests, and an agreement from IT operators that they would participate in the strike. In addition, they sought the support of civic groups (to demonstrate solidarity) and of opposition MPs, requesting that they delay the FHC legislation. Consequently, approximately 30,000 members (out of a total of 60,000) from all banks participated in a rally on the eve of strike, staying until the end of the strike itself, at 8 pm on the following day. The union was able to attain a successful agreement with the Government. Union members appraised the strike as a victory, a result attributable to having learned from the mistakes of the September 1998 strike.

The third strike, by union members of KMB and HB, was held in December 2000. Its aim was to prevent the Government's plan of a merger between the two banks. However, the strike commenced before a thorough strike strategy had been prepared. In addition, the strikers rejected a provisional agreement already reached by the KFIU and the Government. They believed that their strong mobilization (13,000 members out of a possible 20,000) would bring about an even more successful result. However, the strike ended after seven days (it was broken up by riot police), without any outcome achieved. It was a defeat derived from an over-confidence, an attitude the union and its members held following the strike victory of July 2000. In fact union members of KMB and HB had not even participated in that earlier success. Nonetheless, they had been encouraged by the victory by other bank unions. However, without first-hand knowledge of that victory they were unaware of either the strike experience or the difficulties associated with prevailing in one. In short, they did not learn from the earlier strike. The defeat was also attributable to the absence of a KFIU strike strategy in the event of the members' rejection of a provisional agreement.

The fourth strike was engaged in by union members of CHB in June 2003. The aim of the strike was to prevent the Government's sale of their bank. They prepared a more thorough strategy and utilized political opportunity actively in order to achieve their objectives. They developed a justification for the strike, deployed various collective actions in order to mobilize to the utmost their internal and external resources, and used political opportunities flowing from the Presidential election before going on strike. At last, when they had to go on strike they utilized almost all their internal resources, including IT operators and irregular employees, in order to succeed in negotiations with the Government. They were thus able to attain their goals after a strike lasting for five days. Their comprehensive strike strategy was produced after a close analysis of the failure of the KMBU and HBU strike of December 2000.

The strike in December 2000 had been a bitter defeat for the KFIU. Although the strike had lasted for eight days, and had had a serious (but temporary) effect on the business of both banks it had concluded (following an intervention by riot police) without a successful agreement having been reached. This was due to there not being a well-thought-out strategy. Subsequently, 29 union officials were prosecuted. On the positive side, the KFIU and the CHBU were able to learn from the failure that membership mobilization alone was never enough to win a fight against the Government.

The results of these strikes in the Korean banking sector show that the successful mobilization of union members is a necessary condition, but not of itself enough, for unions to prevail in strikes. Unions must develop (or prepare) a strategy for victory before going on strike. The strategy has to take into account the likely responses of the unions' opponents, and the union has to be as fully prepared as possible for the surmounting of less predictable obstacles (e.g. environment and politics). Unions must develop a justification for strike action, utilize political opportunities, mobilize internal and external resources as much as possible, ensure that the rank-and-file and the union leaders are united, and develop more effective collective actions. Successful strike strategies can be developed from positive learning of earlier strikes by their own and other unions.

Unions in the Korean banking sector prevailed in two strikes (in July 2000 and June 2003), but failed to achieve their aims at two others (in September 1998 and December 2000). The reason for the former was that through reflection and more thorough preparation (i.e. learning from the failures of other strikes) they were able to devise successful strategies. Conversely, one reason for the latter was negative learning, such as over-confidence from previous strike victories (an especially bad fault in the case of strikers who had no direct experience of a successful strike).

**<Table 5-1> Capital Adequacy Ratio of unhealthy banks and measure by the FSC (December 1997)**

Bank name	CAR (%)	Measure by the FSC
Seoul	0.97	Objective to sell foreign investors after input of public funds and restructuring
Jae Il	-2.70	-
Cho Hung	6.5	Conditional survival by restructuring (input of public funds)
Sang Yup	7.62	-
Han Il	6.9	-
Foreign Exchange	6.79	-
Chung Puk	5.92	-
Pyung Hwa	5.45	-
Kang Won	5.37	-
Dong Hya	5.34	Closure objective
Don Nam	4.54	-
Dae Dong	2.98	-
Chung Chong	7.05	-
Kyung Ki	6.69	-

Source: KFIU (1998)

**<Table 5-2> Details of restructuring and strikes at retail banks**

	December 1997	December 1999 (the first restructuring)	December 2001 (the second restructuring)	December 2003 (the third restructuring)
Contents		Closure of insolvent banks and personnel reduction	Bank large-sizing policy	Privatization and bank large-sizing policy
No. of banks	26	17	15	14
No. of regular employees	113,994	74,744	68,360	66,881
Strike		Industry-wide strike in September 1998	Industry-wide strike in July 2000. A strike at KMB and HB in December 2000	Strike at Cho Hung Bank in June 2003

Sources: Korea Federation of Banks (2003),  
Financial Supervisory Commission (2003),  
KFIU (1999-2004).

**<Table 5-3> Demands of the Government and the unions, and the major contents of the agreement signed at the conclusion of the strike in September 1998**

<b>The FSC's demand to insolvent banks for public fund input (18 August 1998)</b>
1. Seven unhealthy banks (Cho Hung, Han IL, Sang Yup, Foreign Exchange, Pyung Hya, Kang Won, and Chung Puk) were required to reduce staff numbers by 30 percent (including those who had already retired in 1998) before the end of 1998; a further 10 percent reduction was required by the end of 1999. Staff would be paid a retirement bonus equivalent to five months salary.
2. The two other insolvent banks (Seoul and Jae IL Bank, both offered for sale to foreign investors) were required to reduce staff numbers by 50 percent (including those who had already retired in 1998) by the end of 1998, again with a retirement bonus equivalent to five months salary.
<b>Unions' demands (14 September 1998)</b>
1. Cancellation of the Government's forced demand for staff reduction. 2. Guarantee of autonomous negotiation between unions and employers. 3. Guarantee of 12 months retirement bonus.
<b>Agreement between unions and employers on 29 September 1998 (with the Government's guarantee)</b>
1. Staff reduction of 32 percent (including already retired employees in 1998) within 1998. 2. 9-12 months salary as a retirement bonus.

Source: 1999 KFIU Annual Report (2000a)

**<Table 5-4> The KFIU's demands and the content of the agreement reached at the industry-wide strike in July 2000**

<b>KFIU's six demands to the Government</b>
1. Dismiss the Minister of Finance and Economy who is responsible for the failure and confusion of the financial market, and hold a hearing into the financial restructuring!
2. The Government has to take responsibility for the insolvent credits resulting from the Government's involvement in financial institutions!
3. Enact special laws in order to eradicate the Government's unreasonable involvement practices in financial institutions!
4. Cancel the policy of forced mergers of financial institutions!
5. Repeal the hurried legislation regarding Financial Holding Companies!
6. Cancel the plan to separate the credit business from the cooperative associations!

<b>July Agreement between the KFIU and the Government</b>
<b>1. The Government confirms the basic direction of financial policy operation as follows. These will be orders of the Prime Minister, based on the decisions of a Cabinet Council.</b>
-The Government will eradicate unnecessary and excessive legal regulations that hinder the autonomous management of banks as soon as possible.
-The Government guarantees thoroughly the responsibility of management and the transparency of bank management on the condition that it (the management) can exclude all instances of interference, pressure, and solicitation from external agents. It also guarantees autonomous management by a board of executives although the Government remains the largest shareholder.
-The Government will execute decisions based on government policy regarding the maintenance of financial market stability according to clear and transparent methods and processes in order to remove any public misunderstanding and suspicion.
<b>2. The Government pursues the second reform of the financial sector as follows in order for the attainment of global competitiveness and in the pursuit of continuous financial reform.</b>
-Reform will be pursued according to market principles.
-The Government will prepare legal supporting systems for the introduction of the Financial Holding Company system, the preferential treatment of authorization and the development of the infrastructure of the financial market, and the buying of subordinate debt.
-The reform of banks that do not receive public funds will be the responsibility of those banks.
-Those receiving public funds will have to submit a management normalization plan to the Government.
-The reform of banks that receive public funds will be pursued under government leadership.

**In order to pursue the above, banks unable to normalize their business on the base of the end of June, and those receiving public funds will have to submit a management normalization plan to the Government by the end of September.**

**-Additional clauses related to the above.**

- a. An independent Management Evaluation Commission of Banks (MECB), in which the Government does not participate, will evaluate the reasonableness of the plan. The Government will pursue the reform of the banks according to the decisions of the MECB. A Chairman of the MECB will be appointed. He/she will be neutral and objective. The Commission will comprise eight members.
- b. As a result of the evaluation, banks that are judged to be able to solve insolvent bonds for themselves and to survive independently will be permitted to pursue management normalization according to their own plan.
- c. The Government will pursue a plan to normalize other banks that are judged not to be able to survive independently. This will be achieved by the FHC's subsidiary after inputting public funds into each bank until the ratio of equity capital on the base of the BIS reaches to 10 percent under the prerequisite conditions of self-help efforts and burden sharing.

**3. There will be no forced mergers instigated by the Government in the second financial reform. The Government will respect collective bargaining agreements between unions and employers regarding the reduction of personnel and reorganization.**

**4. The Government will execute the deposit guarantee system, (partly) in accordance with the plan. However, the Government will examine the completion of financial reform and the stability of financial market, and the possible distortion or maldistribution of capital movement between the financial institutions before the execution of the deposit guarantee system.**

**5. Other.**

\*The Government will pay banks the capital that it assumes responsibility for (debts from the Korea Deposit Insurance and Han Arm Composite Finance company) as soon as possible.

\*The Government will decide on a clear method of the payment of loans (economy cooperation loan to Russia, loans by Korea Export Insurance Corporation's guarantee) for which it accepts it has a legal responsibility as soon as possible.

**11.7.2000**

Sources: KFIU (2001a), KTC (2000).

**<Table 5-5> Comparison of mobilization, strategy, and learning between strikes in September 1998 and in July 2000**

	September 1998 Strike	July 2000 Strike
Mobilization	<p>1. Resource mobilization:</p> <ul style="list-style-type: none"> <li>-internal: 7,000 union members participate in strike; 20,000 (out of 36,569 union members from nine banks) attend a rally on the eve of strike day.</li> <li>-external: no outside resource mobilization.</li> </ul> <p>2. Political opportunity:</p> <p>no political opportunity able to be exploited due to the negative environment as a result of the national financial crisis.</p> <p>3. Collective action:</p> <p>rallies, leaders shaving their heads, collection of strike fund (£2,500,000), strike in front of Myung Dong Cathedral.</p> <p>4. Strike period/place: four hours/Myung Dong Cathedral's plaza.</p> <p>5. Strike impact: partial business paralysis during the morning at seven banks.</p>	<p>1. Resource mobilization:</p> <ul style="list-style-type: none"> <li>-internal: 20,000 union members participate in strike; 30,000 members (out of 65,000 from all banks) attend a rally on the eve of strike.</li> <li>-external: use of civic groups, national centre of unions, and Tripartite Commission.</li> </ul> <p>2. Political opportunity:</p> <p>successful exploitation of political opportunities by the use of opposition MPs to delay the FHC legislation; the identification of the failure of the Government's first restructuring and the problems of the Government's unreasonable involvement in financial institutions.</p> <p>3. Collective action: various activities: big rallies, union leaders shaving their heads, wearing of casual clothing to work, collection of strike fund (£5,000,000), submission of leave of absence applications, strike at university stadium.</p> <p>4. Strike period/place: 12 hours/university stadium.</p> <p>5. Strike impact: partial business paralysis at almost banks.</p>
Strategy	<p>1. Mobilizing of inside resources (union members).</p> <p>2. Business paralysis through membership mobilization.</p> <p>3. Appraisal of strategy: poor strike strategy; poor activities before strike and a lack of unity between unions due to the enterprise union form.</p>	<p>1. Mobilizing of various resources from inside and outside.</p> <p>2. Claiming justifications for strike against the Government's second restructuring; 1). emphasizing the fact that employees were once again the sufferers because a) the Government had failed in its restructuring of the industry during the first round and b) of the Government's unreasonable involvement in financial institutions; 2). requiring the cessation of the Government's unreasonable involvement in financial institutions and the compensation of damages resulting from those practices.</p> <p>3. Business paralysis through membership mobilization.</p> <p>4. Appraisal of strategy: comprehensive strike strategy (see above points 1, 2, 3) and a strong unity between bank unions under an industrial union.</p>
Learning	No learning from the past due to no experience of industry-wide strike; poor preparation.	Positive learning from the failure of the September 1998 strike; thorough preparation.
Appraisal of strike	Half a failure and half a success: poor strike strategy, and unsatisfactory agreement	Success: successful strike strategy and satisfactory agreement

**<Table 5-6> Information about KMB and HB (January 2001)**

	KMB	HB
Number of regular employees	Regular: 11,026 Irregular: 3,493	Regular: 8,855 Irregular: 3,244
Number of union members	8,166	7,127
Number of branches	600	557
Total value of assets	£45 billion	£38.5 billion
Major shareholders	Goldman Sachs 11.07 percent, Government 6.48 percent.	Government 14.5 percent, ING 9.9 percent

Sources: FSC (2002), KFIU (2001a)

**<Table 5-7> Contents of provisional agreement and final agreement at KMB/HB strike in December 2000.**

**Provisional agreement (between the head of the KFIU and the Chairman of the FSC)**

1. According to the July agreement, the merger between KMB and HB should be decided by autonomous negotiation between unions and employers. (Author's emphasis)
2. Four insolvent banks would be operated independently although they would be involved in a Financial Holding Company as subsidiaries.
3. Their functions should be reformed by July 2002 by negotiation between union and employers.
4. Redundancy should be decided by negotiation between union and employer.

22.12.2000

**Final Agreement between the KFIU and the FSC**

1. According to the July agreement, four insolvent banks (Han Bit Bank, Pyung Hya Bank, Kyang Ju Bank, Kyung Nam Bank) will be operated as independently as possible although they would be involved in a Financial Holding Company (FHC) as subsidiaries. The FHC will be a right of management in the normal business, such as management strategy and other branch issues, until the end of March 2002.
2. The FHC has to produce a plan of function reform by the end of March 2002, following a consultation process. The functions of the four banks have to be reformed by July 2002 by negotiation between union and employers.
3. Redundancy should be decided by negotiation between union and employer. The Government decides whether or not to input additional public funds half yearly after checking on the execution of the MOU.

22.12. 2000.

Source: KFIU (2003a)

**<Table 5-8> Comparison of CHB and SHB (March 2003)**

	CHB	SHB
Year of formation	1897	1994
Number of regular employees	6,629 (irregular employees: 1,092)	4,566 (irregular employees: 919)
Number of branches	547	348
Total of assets	£37.5 billion	£37 billion
Total of outstanding deposit	£24.5 billion	£24 billion
Total of credit	£25.5 billion	£23.5 billion
BIS-set capital adequacy	8.81 percent	10.25 percent
Number of union members	5,445 (CHBU)	2,833 (SHBU)
Major shareholders	Government: 80.05 percent	Japanese investors: 28 percent

Sources: FSC (2004), KFIU (2004a)

**<Table 5-9> The content of the agreement at CHB strike in June 2003**

**The content of agreement between KFIU and SHG**

1. CHB will be an independent firm for three years within the Shin Han Holding Company.
2. CHB will be operated independently for three years.
3. The Chief Executive of CHB will be someone from within CHB for three years.
4. The CHB brand will continue to be used for three years.
5. The details of the merger will be formulated by a merger preparation committee during the first two years.
6. CHB and SHB will each contribute one-half of the membership of the committee of merger preparation.
7. Job security of all employees of CHB will be guaranteed.
8. The wages of CHB employees will be improved to the level of SHB wages within three years (meaning that the wages of CHB employees would increase by about 30 percent).
9. Fifty percent of the executives of the Shin Han Holding Company will be from SHB, with the other half from CHB.
10. An equal merger will be a principle if the committee of merger preparation decides upon a merger.

In addition, the Government and employers promised the union, in the agreement, which they would try to minimize penal punishment or assign any civil responsibility related to the illegal strike to the union.

**<Table 5-10> Comparison of mobilization, strategy, and learning between strikes of the KMBU/HBU and the CHBU**

	Strike by the KMBU and the HBU	Strike by the CHBU
Mobilization	<p>1. Resource mobilization: -union members only (13,000 of a total of 15,293 members and 26,618 employees of KMB/HB participated). -no support from outside.</p> <p>2. Political opportunity: No political opportunity due to the rapid progress of situation and the breach of provisional agreement by union.</p> <p>3. Collective action: Wearing of casual clothing, rallies, collection of strike fund (£650,000, i.e. £50 per member), strike in an education centre (i.e. not bank headquarters).</p> <p>4. Strike period/place – seven days (22-28 December)/Financial Education Centre.</p> <p>5. Strike impact: almost total paralysis of business at KMB, and partial paralysis at HB.</p>	<p>1. Resource mobilization: -Internal: all employees, including IT operators and irregular employees (6,000 of a total of 7,721 employees participated/ 5,445 union members and others). -External: use of group of ex-executives, civic groups, group of small shareholders, national centre of unions.</p> <p>2. Political opportunity: utmost use of Presidential election period – support from Presidential candidates, meeting with elected President.</p> <p>3. Collective action: -various activities: thwarting actual inspection, sending memos to the media, wearing of casual clothing, big rallies, cutting of hair by 4,000 members, delivering of all employees' resignations to the Blue House, blood donation, collection of strike fund (£2,500,000, i.e. £400 per member), distribution of 1,000,000 leaflets to citizens, organization of petition against the sale, inserting of advertisement in newspapers, use of 500 cyber fighters, strike at bank headquarters.</p> <p>4. Strike period/place – five days (18-22 June)/headquarters of CHB.</p> <p>5. Strike impact: total business paralysis due to the participation of almost all employees, including IT operators and irregular employees.</p>
Strategy	<p>1. Business paralysis through just membership mobilization.</p> <p>2. Appraisal of strategy: Poor strike strategy; poor activities before strike, and a gap of strategy between leaders and members.</p>	<p>1. Mobilization of various resources from inside and outside</p> <p>2. Claim of justifications for fight against the sale</p> <p>3. Use of favourable political opportunity</p> <p>4. Business paralysis through membership mobilization.</p> <p>5. Appraisal of strategy: Comprehensive strike strategy (see above points 1, 2, 3, 4): coincidence of strategy between leaders and members.</p>
Learning	Negative learning from the KFIU's strike success in July 2000: poor preparation and over-confidence.	Positive learning from strike failure at KMB in December 2000 and the KFIU strike in July 2000: complete preparation and self-restraint.
Appraisal of strike	Failure: break up by police without agreement.	Success: production of successful agreement.

# CHAPTER 6. LITERATURE REVIEW AND THEORETICAL FRAMEWORK

The main aim of the thesis is to identify how and why some strikes are more successful than others. To do this, first of all, we need to look at theories related to the research aim, theories of mobilization (including strategy theory) and OL. This chapter therefore examines those theories in detail and devises a theoretical framework for the thesis through the adaptation of the concept of OL to mobilization theory.

## 6.1. Mobilization theory

### 6.1.1. Progress of mobilization theory

According to McAdam (1988: 125), mobilization theorists have studied the reasons and processes that lead individuals to participate in collective action. Up to the mid-1970s, the study of social movements mainly focused on a form of collective behaviour that operates primarily at a social psychological level. Thus, answers to questions of movement emergence and individual participation tended to be sought in the characteristic psychological profile of the activist and the presumed psychological functions attendant to participation. This social psychological approach<sup>73</sup> to the study of social movements is related to the relative deprivation (Crawford and Naditch, 1970), mass society (Kornhauser, 1959; Selznick, 1969), and collective behaviour models (Lang and Lang, 1961; Smelser, 1962).

Since then the focus of movement analysis has shifted from the social psychological perspective to more political and structural accounts of movement dynamics arising from political turbulence and social changes. The new theoretical perspectives to emerge in the field are the resource mobilization and political process models in the United States and the new social movement approach brought by a comparative

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<sup>73</sup> Useem (1998: 215) calls it the breakdown theory, which is that forms of collective action, such as riots, rebellion, and civil violence occur when the mechanisms of social control lose their restraining power.

dimension of political and cultural structures in Europe (McCarthy and Zald, 1973, 1977; Tilly, 1978; McAdam, 1982, 1988; McAdam, et al., 1996; Evans, 1980; Morris, 1984). These perspectives attribute rationality to movement participants and posit a fundamental continuity between institutionalized and movement politics.

These models differ chiefly only in emphasis. Resource mobilization theorists principally focus on how burgeoning movement organizations seek to mobilize and to routinize the flow of resources to ensure movement survival (McCarthy and Zald, 1973, 1977). On the other hand, the political process model emphasizes two sets of structural factors to facilitate the generation of social insurgency (McAdam, 1982; Tilly, 1978). The first is the level of organization within the aggrieved population and the second is the political opportunities available to insurgent groups (Eisinger, 1973).

However, all models, the social psychological model and the new ones that attribute exclusive importance to macro structural factors, tend to oversimplify the complexity of collective action. Thus, McAdam (1988: 127), who tried to make the conceptual bridge between macro political factors and the individual decision to participate through an empirical study of the American Civil Rights Movement, asserts that movements occur in a broad macro political-economic context, but that their actual development clearly depends on a series of more specific dynamics operating at the micro individual decision level<sup>74</sup> (1988: 127).

As union decline has threatened the relevancy of mainstream industrial relations, Kelly (1998: 24-38) attempts to move mobilization theory away from structural correlates models, such as collective bargaining systems and its associated institutions, towards an examination of the processes that convert individual grievances into collective action. His work suggests that injustice serves as the central organizing principle for mobilizing workers and as such provides a potentially powerful construct for understanding the industrial relations process (Johnson and Jarley, 2004: 543).

Kelly (1998: 24-38) emphasizes that collective identity and collective action are most likely to emerge as a response to injustice, and that the role of leaders is critical in the

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<sup>74</sup> Snow et al. (1986, 1988) have referred to these (macro and micro-level) processes as the framing processes: the processes that mediate between opportunity, organization and action by ways of collective attribution and social construction (McAdam et al., 1996: 5).

process. In his view, “mobilization theory allows us to analyse the processes by which workers acquire a collective definition of their interests in response to employer-generated injustice. It is then possible to show that worker collectivism is an effective and situationally specific response to injustice” (1998: 1). Golden also identifies a limitation of the structural correlate models. According to her, the structural correlate models generally argue that where unions, employers, and/or wage bargaining are relatively encompassing nationally, industrial action will in general be less common because accommodation between unions and employers over workforce reductions would be more likely to characterize such settings. Conversely, where industrial relations systems are comparatively decentralized and fragmented, industrial conflict occurs with relatively frequency, and accommodation over workforce reductions would be less often expected. However, the structural characteristics do a poor job accounting for the outcomes both within and across countries because some countries with relatively decentralized union movements and fragmented industrial relations systems experience conflict over job losses only rarely, whereas others, with relatively centralized industrial relations systems experience such conflict often (Golden.1997: 12). She argues that strikes held in response to restructuring tend to occur as a result of a cost and benefit analysis by unions (*Ibid*: 157-60; see Section 6.1.4).

In sum, mobilization theory has developed from a social psychological approach to a structural correlate approach, then to an approach of the processes that convert individual grievances into collective action.

### **6.1.2. Logic of mobilization**

There are three highly relevant theories of the logic of mobilization. Firstly, according to Tilly, “the broad factors within a population affecting its degree of mobilization are the extent of its shared interest in interactions with other population, and the extent to which it forms a distinct category and a dense network (i.e. its interests and its organization). Outside the group, its power, its subjection to repression, and the current constellation of opportunities and threats most strongly affect its mobilization level” (1978: 81).

Tilly defines mobilization as the process by which a group goes from being a passive collection of individuals to an active participant in public life. He suggests a

formulation of mobilization level: "Mobilization level = the sum of market value of factor of production under group control x the probability of delivery when called for" (Factors of production could include land, labour, capital, and expertise). He contends that the major variables affecting the probability of delivery are the extent of competing claims on the resources involved, the nature of the action to which the resources are to be committed, and how organized the mobilizing group is. If the resources are free of competing claims, if the action clearly defends the interests of every member, and if the group is an all-embracing moral community, the probability of delivery is close to 100 percent. Loyalty is then at its maximum and the probability of departure or contestation is at its minimum. In other words, a significant part of the work of mobilization goes into changing the following three variables: 1). reducing the competing claims on resources controlled by members, 2). developing a program which corresponds to the perceived interests of members, and 3). building up a group structure which minimizes exit and voice (1978: 69-70).

Tilly also makes distinctions between defensive<sup>75</sup>, offensive<sup>76</sup>, and preparatory mobilization<sup>77</sup>. He argues that a population's initial wealth and power significantly affect the probability that its mobilization will be defensive and offensive. People may generally think that the rich mobilize conservatively, in defence of their threatened interests, while the poor mobilize radically, in search of what they lack. However, this is wrong. It is true that the rich never lash out to smash the status quo, while the poor sometimes do. Yet, the rich are constantly mobilizing to take advantage of new opportunities to maximize their interests, while the poor can rarely afford to (1978: 73).

Secondly, Offe and Wiesenthal (1985: 182) argue that the rich (the more powerful organization) tries to minimize the poor's (the less powerful organization) ability to exercise power while maximizing its own ability to do so. In addition, the power position already gained does not allow the poor to pursue the opposite strategy with the same chance of success. The reason is that the potential to change power relations is itself determined by those power relations that are to be changed.

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<sup>75</sup> In this mobilization, a threat from outside induces the members of a group to pool their resources to fight off the enemy.

<sup>76</sup> In this, a group pools resources in response to opportunities to realize its interest.

<sup>77</sup> In this, a group pools resources in anticipation of future opportunities and threats.

Offe and Wiesenthal ask how it is at all possible to explain actual changes in the power relationship. They suggest the following in the answer to their own question: it is necessary to employ a form of collective strategy of conflict which not only aggregates the individual resources of the members of the association in order to meet the common interests of these individuals, but which also overcomes the individuality of those resources and interests as well as the obstacles to effective organization, by defining a collective identity on the basis of which the chance to change existing power relations is no longer exclusively determined by these power relations themselves (Ibid: 183).

Thus, for instance, workers' organizations, the less powerful side in the capitalist system, always find themselves forced to rely on non-utilitarian forms<sup>78</sup> of collective action, which are based on the redefinition of collective identities, even if the organization does not have any intention of serving anything but the members' individual practical interests, such as higher wages, employment security, and working conditions. No union can function in the absence of some rudimentary notions held by the members that being a member is of value in itself, that the individual organization costs must not be calculated in a utilitarian manner but have to be accepted as necessary sacrifices, and that each member is legitimately required to practice solidarity and discipline, and other norms of a non-utilitarian kind. It means that the logic of collective action of union organization implies a paradox that interests can only be met to the extent they are partly redefined. Therefore, unions must always be construed in such a way that they simultaneously express and define the interests of their members.

In addition, unions must be able to mobilize sanctions, such as strikes, in order to succeed in accomplishing stated interests. Then the unions' strike mobilization capacity has to be built up in communicative (or dialogical) processes within the unions, whose individual potential to sanction is minimal because of their atomization. It means that sanctioning potential in unions becomes effective only through the organization of members and their explicitly coordinated action. Thus, what unions need is the conscious and coordinated active participation of their members. In other words, sanctioning potential in unions depends on their ability to generate their members' willingness to act (Ibid: 184; see Section 6.3.6.4).

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<sup>78</sup> Volkenbury and Zoll (1995:139) interpret it is unions' role as an emancipatory movement.

Lastly, Olson argues that “unless there is coercion or some other special device to make individuals act in their common interest, rational, and self-interested individuals will not act to achieve their common or group interests” (1971:2). In other words, “collective organization and action is achieved through the provision of selective incentives – rewards for participation or punishments for free-riding – that are only available to group members and which therefore change the calculations and actions of rational individuals” (Kelly, 1998:68). Olson’s theory is a kind of rational choice theory. Kelly is critical of it, stating that: “Olson has no concept of group identity as a way of understanding the regulation of people’s behaviour in group and inter-group contexts. His work is unable to account satisfactorily for the formation of trade union. In the world of trade unionism the clear majority of workers do not free-ride; they join unions of their own volition. If we understand how people come to define their interests in collective organization and action, then mobilization theory offers a far richer and more plausible account of the processes involved” (1998: 81-2).

### **6.1.3. Process of mobilization**

Mobilization theorists have developed a large body of work to map closely onto the central problems of industrial relations: first, how do individuals acquire a sense of the collective? Secondly, how do individuals organize collectively to pursue their grievances? Thirdly, how will/do such individuals take collective action? (Tilly, 1978; McAdam, 1988; Gamson, 1992, 1995; Kelly, 1998). These questions entail analysis of the ways in which groups perceive and acquire power resources and deploy them in the construction of different types of conflictual and collaborative relationships (Kelly 1998: 24).

Tilly (1978: 56) argues that a useful theory of collective action must deal with interests, organization, mobilization, opportunity, and the different forms of collective action. Interest<sup>79</sup> refers to the way that group members come to define them. Organization is the extent of common identity and unifying structure among members. Mobilization refers to the process by which a group acquires collective control over the resources

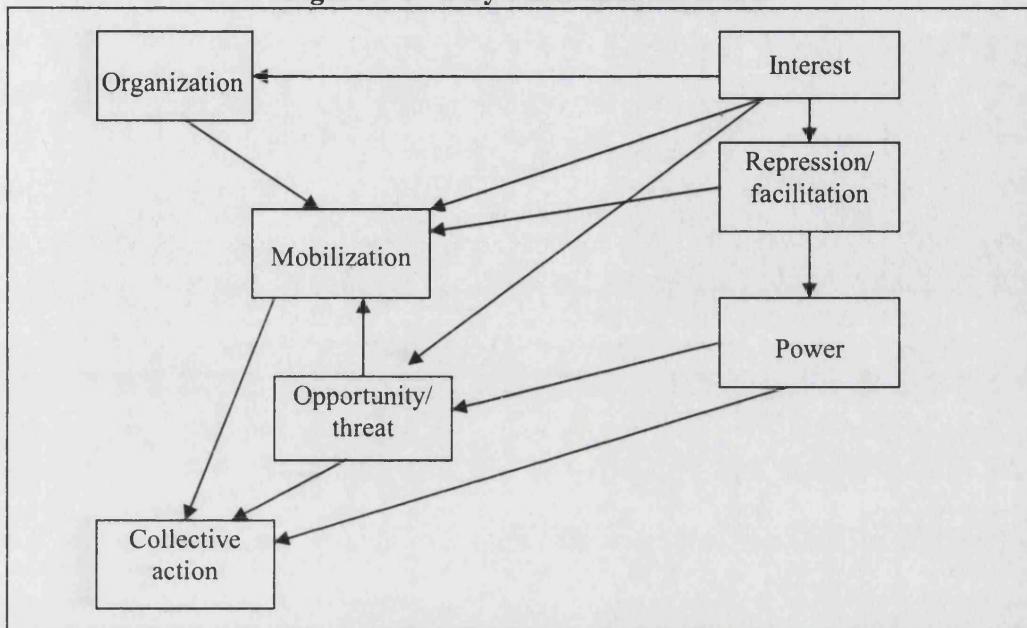
<sup>79</sup> Offe and Wiesenthal (1985: 197-8) argue that a dialogical process of definition of interest is required for the working class who depend on a common and collective concept of interest. This is because the interest of any individual member of the working class is far more likely to be ambiguous, controversial, or wrongly perceived compared to that of a capitalist.

needed for action. Opportunity is the extent of new claims to enhance the realization of its interests. It is itself divided into three elements; the balance of power between the parties, the cost of repression by the ruling group and the opportunities available for subordinate groups to pursue their claims. Lastly, collective action can take different forms according to the balance between interests, organization, mobilization, and opportunity. In addition, he contends that the form of an organization may affect the repression to which those with which it engages subject it. The repression depends mainly on the organization's interest and the degree to which it conflicts with the interests of other organizations. In the longer run, an organization's form, pace, and extent of mobilization affects the repression which others apply to it. A group's form of both organization and mobilization affects its interests (1978: 56; Figure. 6-1).

McAdam (1988: 132) especially emphasizes the concept of injustice (or illegitimacy) as a necessary factor of mobilization. He argues that grievances arise when people are cognitively liberated from a belief in the legitimacy of the status quo. Dissatisfaction may be necessary to motivate collective action but it is not sufficient. For example, employees can understand that a company pay freeze is unavoidable if the firm is facing bankruptcy although they may not be happy about it. Therefore, a sense of injustice is necessary for collective action. The injustice can arise when management violates established rules or shared beliefs (or social values), e.g. instructing workers to do work that is not part of their job. McAdam (1988:132) also identifies two other elements of cognitive liberation, the assertion by employees of their rights and the perception of personal efficacy. And Gamson (1992: 7) notes that employees must also feel entitled to their demands and feel there is some chance that their situation can be changed by collective agency.

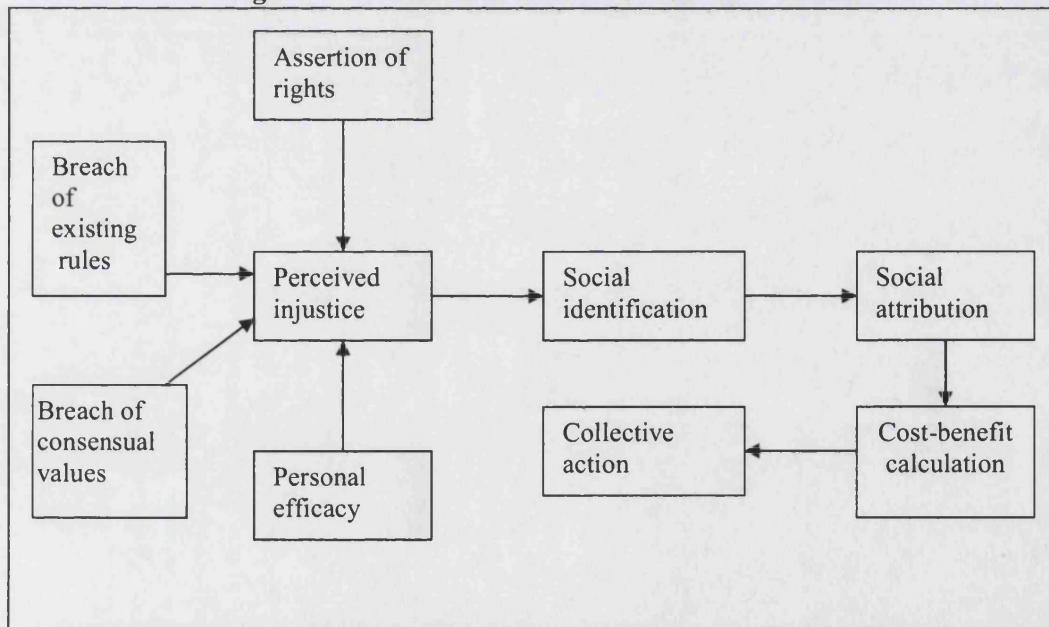
Figure 6.2 explains the mobilization processes, from the sense of injustice to collective action on the basis of McAdam's model of collective action. It shows that a sense of injustice is derived from an organization's breach of existing rules and consensual social values, and the assertion by workers of their rights and perception of personal efficacy. The perceived injustice is funnelled to collective action through the processes of social identification, social attribution, and cost-benefit calculations (Kelly, 1998: 27-9).

<Figure 6-1> Tilly's mobilization model



Source: Tilly (1978: 56) and Kelly (1998: 26)

<Figure 6-2> McAdam's model of collective action



Sources: McAdam (1988) and Kelly (1998: 28)

#### 6.1.4. Mobilization in restructuring

There are two contrary arguments regarding the mobilization of trade unions during a period of economic restructuring. Kelly argues that collective organization and activity

ultimately stem from employer actions that generate amongst employees a sense of injustice or illegitimacy (1998: 44). For instance, in a period of economic recession, employers faced with declining profit rates have sought to intensify the labour process and/or to curb the growth of wages, often in conjunction with, or through the medium of, the state. These measures however impact on a workforce that has become accustomed to steady or at least frequent raises in living standards during the years of economic upswing, thereby fuelling a sense of injustice. Then, the presence of militant activists willing to organize collective action in a labour market where some groups of workers have become relatively powerful adds the final ingredient to the potent mixture that results in periodic eruptions of acute class struggle. Thus, economic restructuring helps to create the basis for a new period of worker mobilization because of its adverse impact on workers' sense of justice, even though the organization and mobilization of workers is eroded and the ideologies of the labour movement are subjected to assault from a variety of sources during the restructuring period (Ibid: 130-2).

On the other hand, Golden argues that workforce reduction derived from economic restructuring has failed to generate industrial conflict in many countries. The reason is it is rational for unions to acquiesce layoffs when firms are threatened with bankruptcy due to an economic crisis. For example, fluctuations in employment in the United States are chronic, but rarely do they engender organized union resistance. Golden claims that unions resist job losses only when it presents a severe threat to union organization itself; unions, she states, aim first and foremost at protecting themselves as organizations. As a result, she argues that strikes are neither inevitable nor unpredictable when economic pressures induce firms to downsize. She theorizes that strikes over large-scale personnel reductions occur under two specific circumstances; first, when a firm inadvertently targets too many union activists for its trade union to tolerate, and, secondly, if offers from outside actors (such as a national business association or a national trade union) to subsidize the costs of conflict lower the costs so as to incite both sides to conflict; in this case, each side prefers conflict over non-engagement because conflict becomes relatively cheap. That is, the former means that a main goal of union strikes is to secure protection for union militants and activists in order to protect the union itself. Accordingly, she suggests that unions should favour seniority-based layoffs in order to protect their activists. For example, union militants in the United States enjoy almost complete protection from expulsion from their firms thanks to seniority arrangements. In other words, job cuts are determined by the date one was hired, with the most

recently hired the first to be let go. In this context, strikes over job losses are rare because union representatives tend to enjoy more seniority than average workers (1997:157-60). However, Golden's argument of the rationality of union resistance to job losses derived from very specific cases and disregarded the distinct dynamics of group and inter-group behaviour analysed by social identity and mobilization theorists (Kelly, 1998: 72).

There have been many strikes around the world (including in Korea), the objective of which has been to protect the jobs of the rank-and-file, not those of senior union activists. This is very natural because the protection of union members' jobs is a priority of union activity. In the case of the Korean banking sector, the unions (without outside financial support) have taken strike action against restructuring on four occasions since 1998, each time to protect employees' jobs, as the targets of redundancy were the rank-and-file, not the union activists (Chapter 5). In Korea, union activists are usually in a safer position than other employees because of collective agreements which include a seniority provision. As a result, unions were able to contribute to workers' job security in successful strikes, while, in the case of unsuccessful strikes, it was the union leaders who were most critically damaged as some lost their (union) positions (in the case of the September 1998 strike) or went to jail (as happened following the strikes of December 2000 and June 2003), in which cases they lost their bank jobs (see Section 8.2.1).

#### **6.1.5. Effectiveness of mobilization**

There is an extensive literature on mobilization effectiveness based on case studies of union strikes, with powerful arguments being made by both mobilization theorists and moderate unionism proponents.

The latter argue that if unions offer benefits such as cooperation in flexibility agreements and involvement in training programmes to employers, then they are more likely to extract concessions in return, such as recognition for collective bargaining and influence in decision-making (Crouch, 1982; Bassett, 1986; Lloyd, 1986; Leadbeater, 1987; Rico, 1987; Kern and Sabel, 1992; Bacon and Blyton, 2002). Furthermore, they contend that strikes are ineffective insofar as they either fail to achieve their objectives or achieve them at such heavy financial cost to strikers that they constitute purely

Pyrrhic victories<sup>80</sup>. For example, Metcalf et al. (1993: 189) argue that wage strikes lasting more than about four days almost certainly generate more costs for the strikers in lost wages than they will recoup through employer concessions in wage bargaining. They also argue that militant unionism is vulnerable to employer counter-attack under conditions of recession in a way that more moderate unionism is not (MacGregor, 1986; Milne, 1994; Bacon and Blyton, 2004). As examples, they refer to strikes in the British coal and printing industries in the early 1980s.

These arguments have been reinforced by the increased competitive pressures in world markets and the internationalization of production and corporate organization. Competitive pressures have subjected employers to seeming continuous pressures to reduce costs, whilst internationalization has put key corporate decisions increasingly beyond the reach of workplace unionism. Because of this hostile environment, it is argued that unions are in no position to challenge fundamentally the priorities and interests of employers but must adapt as best they can, seeking out those issues on which they can forge common or compatible objectives with employers (Kelly, 1998: 60).

On the other hand, mobilization theorists have argued for the effectiveness of strikes by emphasizing the conflicts of interest in the employment relationship (Cronin, 1979; Barling et al., 1992; Hartley, 1992; Cohn, 1993; Kelly, 1996, 1998). Kelly (1998: 64) argues that where unions have visibly demonstrated their strength and influence in pursuing, and winning, employee claims and grievances through strike action, then non-union workers have been encouraged to join in unusually large numbers. Furthermore, he contends that such effectiveness is unlikely to be demonstrated through policies of moderation, even where unions attempt to pursue issues that are purportedly of equal interest to employers, such as training, equal opportunities, and health and safety.

Franzosi, in 'The Puzzle of Strikes' (1995: 342), argues that strike waves themselves produce changes in the economic, organizational, institutional, and political spheres; they are not the result of a set of those determinants. In other words, strikes are the cause, as well as the effects, of economic, organizational, institutional, and political

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<sup>80</sup> It means that although someone has won or gained something, it was not worth the sacrifices that they had to make.

factors passing through the processes of union mobilization and the state and employers counter mobilization<sup>81</sup> over a prolong period of time.

He mentions that strikes in Italy, firstly, transformed the very nature of working class organizations; not only did union membership increase, but also the union personnel changed as a consequence of the strike waves. In addition, the organizational structure of unions changed from the federal level to the confederal level. Secondly, the strikes affected not only the organization of labour but also that of employers (from national and regional associations to industrial associations). Employers tried to develop a collective response to the changed climate of class relations through their coalitions designed to break down strikes and workers' organizations. It means that the strikes brought about a complete turnaround in ideologies and strategies of class relations. Thirdly, the political organization of the labour and its political position in the national power structure also changed. The Socialists were brought into a coalition government and labour involvement in political institutions increased. Fourthly, the strikes also brought about changes in the forms of institutionalization of conflict (e.g. toward more decentralized, industry wide bargaining and the extension of the practice of plant level bargaining). Finally, economic structures were deeply shaped and transformed by the strikes. In other words, the business cycle itself can be viewed as a product of class conflict, as the by-product of employers' actions and state actions aimed at curbing labour militancy by thwarting workers' bargaining power in the labour market. This is because mobilization of unions is likely to lead to counter-mobilization by state and employers. The state's basic response to workers' mobilization is repression of the most radical fringes of the movement and reward of the organizations (unions). The employers tried both to get rid of the most militant vanguard of workers (via layoffs and transfers) and to decrease the weight of labour in the mix of the factors of production (capital, labour, and raw materials). For example, employers turned to small factories

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<sup>81</sup> Kelly notes that the workers mobilization for strikes generates counter-mobilization by the state and the employers. The state attempts to persuade workers they have common interests with employers in boosting productivity and competitiveness, and curbing wage demands. The state also tries to repress the workers mobilization by legal measures and to change the forms of collective action through the use of cooling off periods and secret ballots. It creates opportunities for union involvement in corporatist decision-making structures in order to reduce the incentives for unions to go on strikes. Employers use legal curbs and formalized industrial relations and productivity bargaining to counter or respond to worker power. Their tougher counter-actions include overt de-recognition of unions, the dismissal or transfer of militant union leaders, plant closures and redundancies, cutbacks in union facilities, more flexible work practice and labour intensification, and contracting out of functions (Franzosi, 1995: 342; Kelly, 1998:101-2).

for labour peace and flexibility, because large factories had become sites of ongoing conflicts and labour rigidities (1995:301-40).

Dunlop (1967: 103) argues that a strike is often helpful in precipitating changes in each party's bargaining position and usually encourages each party to reach a compromise as soon as possible. Furthermore, when there is a possibility that a strike could cause great social damage, both government and public opinion can sometimes push employers and unions to search for a quick resolution.

Due to the potential of such a big impact, strikes can produce strong shock effects on firms, forcing management to examine personnel practices and management strategies, to correct inefficient management practices, to tighten up and improve methods of production, and to adopt best practices (Neil, 1958: 289). In these ways, strikes can be a strong and highly effective means of exerting workers' collective voice; unions limit employer behaviour that is arbitrary, exploitative, or retaliatory by balancing the power relationship between workers and managers; they [unions] also reduce turnover and promote stability in the workforce by establishing grievance and arbitration procedures. Such activities create conditions which, when combined with an overall improvement in industrial relations, enhance workers' productivity (Hirschman, 1970; Freeman and Medoff, 1984: 5-6). Of course, strikes can also do great damage to both workers and firms if they are not successfully resolved.

There is also a considerable body of social movement literature dealing with the effectiveness of mobilization. Scholars in this field have argued that it depends more on one of such main factors as political opportunity, resource mobilization, or the strategic capacity of the union (McCarthy and Zald, 1973, 1977; Tilly, 1978; Ganz, 2000).

In the Korean cases under review unions appreciated that the strikes contributed to job security eventually because the Government and employers were forced to take union power into account at later stages of the restructuring. In addition, even the unsuccessful strikes also produced positive learning outcomes for union leaders and members as they planned forthcoming mobilizations (strikes). By learning from their mistakes unions were able to attain successful outcomes at subsequent strikes (see Chapter 5). Mann (1973: 46-7) argues that by the experience of solidarity with other workers at strikes workers recognize, in a very concrete way, the power that will eventually lead to the

collective control by the workers of means of production. That is, the workers learn how to make the connection between their own collective action and plausible alternatives through the experiences of strikes. Consequently, the workers' experiences extend the effectiveness of future mobilization.

The cases studied in this thesis will demonstrate that the unions can achieve the most successful outcomes when they exploit to the utmost resource mobilization, political opportunities, and collective actions. And, the development of a successful strike strategy is more easily achieved when unions are able to learn positively from previous strike experiences.

## **6.2. Strategy, strategic capacity, and tactical innovation**

In order to understand and analyze the dynamics of mobilization we need to examine the concepts of strategy, strategic capacity, and tactical innovation.

### **6.2.1. Strategy**

“The origin of the term ‘strategy’ lies in the military art, where it is a broad, rather vaguely defined, grand concept of a military campaign for application of large-scale forces against an enemy. Strategy is contrasted to tactics, which is a specific scheme for employment of allocated resources (Ansoff, 1965:114)”. According to Von Clausewitz (1968: 165), strategy forms the plan for war, and to this end it links together the series of acts which are to lead to the final decision, that is to say, it makes the plans for the separate campaigns and regulates the combats to be fought in each.

Ganz argues that “strategy is how we turn what we have into what we need to get what we want. It is how we transform our resources into the power to achieve our purposes. It is the conceptual link we make between the targeting, timing, and tactics with which we mobilize and deploy resources and the outcomes we hope to achieve” (2000: 1010). “The strategic importance of the choices we make about how to target resources, time initiatives, and employ tactics depends on how we frame them relative to other choices in a path toward our goals. One reason it is difficult to study strategy is that although choices about targeting, timing and tactics can be directly observed, the strategy that

frames these choices and provides them with their coherence must often be inferred”, using data drawn from interviews with participants, oral histories, correspondence, memoirs, charters, constitutions, organizational journals, activity reports, minutes of meetings, and participant observation (Ibid: 1010).

Since strategy orients current action toward future goals, it develops in interaction with an ever-changing environment, especially actions and reactions of other actors (Brown and Eisenhardt, 1997: 34-56). In fixed contexts in which rules, resources, and interests are given, strategy can, to some extent, be understood in the analytic terms of game theories (Schelling, 1960). But in settings in which rules, resources, and interests are emergent, such as social movements, strategy has more in common with creative thinking (Morris, 1984). Strategic action can thus best be understood as an ongoing creative process of understanding and adapting new conditions to one’s goals (Brown and Eisenhardt, 1997).

“The relationship of strategy to outcomes can be clarified by the distinction game theorists make among games of chance, skill, and strategy. In games of chance, winning depends on the luck of the draw. In games of skill, it depends on behavioural facility. In games of strategy, it depends on cognitive discernment, in interaction with other players, of the best course of action. In most games, all three elements come into play”. “Similarly, environmental developments can be seen as chance in so far as any one actor is concerned. But, in the long run, some actors are more likely to achieve their goals than others because they are better able to take advantage of these chances. Environmental change may generate the opportunities for social movements to emerge, but the outcomes and legacies of such movements have more to do with the strategies actors devise to turn these opportunities to their purposes, thus reshaping their environment” (Ganz, 2000: 1011).

#### **6.2.1.1. Strategy concepts in management**

Concepts of strategy in management have blossomed in various terms such as strategic planning, strategic design, strategic positioning, scenario planning, and strategic intent. We need to look at these in order to obtain a broad understanding of organizations’ strategy-making skills.

Strategic planning is the making of a plan describing how an organization will adapt to take advantage of opportunities in its constantly changing environment in order to maintain a strategic fit between the organization's goals, capacities and opportunities. Ansoff (1965: 23-7), a great contributor to the strategic planning concept, identifies three different levels of management's action: 1. an administrative level concerned with direct production processes; 2. an operational level which focuses on the maximization of efficiency of the administrative action level; 3. a strategic level that is directed toward an organization's relation with its environment, forecasting changes in the environment, planning adequate responses, and controlling the organization's correct realization of these plans. However, Ansoff's idea of strategic planning tends to make management as the strategic thinkers of an organization, seeing their task as defining the big picture, steering the organization with a strong grasp, while the lower level employees realize and implement what they have been told but which they could never see (Clegg, et al., 2005: 414).

Strategic design involves the analysis of organizations in terms of strengths, weakness, opportunities, and threats. It has been called SWOT analysis. The core strategic assumption concerns the identification of opportunities that an organization can exploit better than its competitors. To do this, firstly the strengths and weaknesses (internal conditions) have to be elaborated and the opportunities and threats (external conditions) have to be identified; then, appropriate strategies can be developed (Clegg et al., 2005: 416).

Strategic positioning occurs when an organization performs different activities from rivals or performs similar activities in different ways. In other words, it means deliberately choosing a different set of activities to deliver a unique mix of value. This is done because competitive strategy is about being different (Porter, 1996: 62). Porter argues that the profitability of an organization depends on bargaining power. That is, it pays less to its suppliers and sells at a higher price to customers compared with its competitors. Thus, forces and constraints, such as the threat of substitutes, the threat of new entrants, the power of suppliers, and the power of customers, together form competitive rivalry. These affect the ability to realize higher profitability through strong bargaining power, general conditions and trends in the business environment such as demographics, cultural and social changes, politics, legal trends, economic trends,

access to natural resources, the activities of competitors, and relations with customers, suppliers, and stakeholders (Porter, 1980: 4-32).

Scenario planning is the forecasting of what the best and worst case scenarios for the future might be and what sorts of factors might be critical in dealing with them. According to Ringland (1998, 2002), scenario planners use four environmental factors in order to forecast an organization's future: 1. social dynamics, including quantitative, demographic issues, and softer issues of values, lifestyles, demands, or political energy (e.g. the way that the war on terror seems to entail more surveillance and less autonomy); 2. Economic issues, including macroeconomic trends and forces shaping the economy as a whole, microeconomics (e.g. competition between small, innovator companies), and unique resource-based internal forces (e.g., employee training); 3. Technological issues, including direct (e.g. updating and innovating technologies or software), enabling (e.g. autonomous banking), and indirect (e.g. increased need for security experts) issues; 4. Political issues, including regulatory issues, such as the likely framing of future policies as more or less neo-economically liberal in key areas such as health, education, and transport. The actual questions that scenario planners will use vary, creatively, from case to case as they explore each case's specificities, but typically, they seek insight into areas such as vital issues, favourable outcomes, unfavourable outcomes, internal systems, lessons from past successes and failures, decisions that have to be faced, and questions of responsibility (Ringland, 1998; Clegg et al., 2005: 425-6).

Lastly, strategic intent refers to a clearly understood statement of the direction in which a firm intends to develop; the concept also encompasses an active management process that includes focusing the organization's attention on the essence of winning, motivating people by communicating the value of the target, leaving room for individual and team contributions, sustaining enthusiasm by providing new operational definitions as circumstances change, and using intent consistently to guide resource allocations (Hamel and Prahalad, 1989: 64).

Strategy theorists argue that organizations make decisions in conditions of more or less uncertainty and knowledge. In other words, organizations operate in a bounded rational way, rather than being utterly rational optimizers, weighing every known fact and interpretation, and waiting for all the evidence to be available (Lindblom, 1959; March

and Olson, 1972; Weick, 1979). Hence, rather than seeking optimization, organizations typically seek to arrive at the most satisfactory decision with regard to the evidence available (Clegg et al., 2005: 429).

Weick (1979: 10-1) argues that strategy making (or strategic planning) has many important functions. It brings people together and makes them think about where they are and where they want to go. It is simply a way of addressing the future – speaking about missions and visions, hopes and fears, opportunities and threats. Strategy motivates and animates an organization – it represents an organization’s dreams (strategic intent) and, in scenario planning, a way of overcoming its worst nightmares. Thus, strategies can assure people and give them confidence as well as provide them with future directions and ways of arriving there (Clegg et al., 2005: 430).

### **6.2.2. Strategic capacity**

According to Ganz, in viewing strategy as a kind of creative thinking, there might be three key influences on creative output: task motivation, domain-relevant skills, and heuristic processes. In other words, the likelihood organizations will develop effective strategy (i.e. an organization’s strategic capacity) increases with motivation, access to salient knowledge, and the quality of heuristic processes people employ in their deliberations (2000: 1011-2).

Ganz (2000) explains the three elements of strategic capacity in more detail as follows. First, motivation influences creative output because it affects the focus one brings to one’s work, the ability to concentrate for extended periods of time, persistence, willingness to take risks, and ability to sustain high energy. Motivated individuals are more likely to work to acquire needed knowledge and skills. And they are able to override programmed modes of thought to think more critically and reflectively if intensely interested in a problem, dissatisfied with the status quo, or experiencing a schema failure as a result of sharp breaches in expectations and outcomes (DiMaggio, 1997: 263). To the extent that success enhances motivation, it not only generates more resources but may encourage greater creativity. Regarding the sources of creative motivation, while some emphasize the rewards derived from stimulation of novelty, feeling of mastery, and feeling of control experienced in the competent performance of a task, others emphasize the meaningfulness attributed to the task by the person doing it.

For social movement leaders, motivation deriving from identify-forming values or the moral source that infuse one's life with meaning and one's work with meaningfulness are of particular importance. Work expressive of identity can be viewed as a vocation and work at one's vacation promises more motivational reward than work at a job.

Secondly, salient knowledge is requisite to developing novel applications. It includes skills and information as well as the setting in which those skills are applied. The better our information about how to work within a particular domain – our local knowledge – the more likely we are to know how to deal with problems arising within that domain. When problems are routine, mastery of known algorithms or repertoires of collective action facilitates effective problem solving. However, since environments can change in response to our initiatives, especially volatile social movement environments, regular feedback is important in evaluating responses to these initiatives (Ganz, 2002: 11).

Lastly, innovative solutions to new problems can be obtained by using heuristic methods to imaginatively reconceptualise data or synthesize it in new ways. To think creatively, we must recognize our problems as new ones (at least to us) that require new solutions. To find new solutions we use our gift for analogy to reframe data in new ways. Because it requires fresh perspectives and novel approaches, innovative thinking is facilitated by encounters with diverse points of view, from within one's own life experience or that of the combined experience of the members of a group (Ganz, 2002: 12).

Ganz also claims that an organization is more likely to achieve positive outcomes if it develops an effective strategy regarding timing of initiatives, targeting of resources, and tactics to be deployed. And, it is more likely to develop effective strategies if its leaders can access diverse sources of salient information, employ heuristic processes, and demonstrate deep motivation. Variation in strategic capacity, again, derives from differences in leaders' life experiences, networks, and repertoires, and organizations' deliberative processes, resources flows, and accountability structures (2000: 1012; Section 6.4.1).

McAdam contends that an attempt to identify the influences on effective strategizing requires studying the same organization over time to discern the mechanisms that generate it. Strategic capacity, strategy, and outcomes might be distinct links in a

probabilistic causal chain. In other words, greater strategic capacity is likely to yield better strategy, and better strategy is likely to yield better outcomes. However, the strategic capacity of organizations can grow or decline; such variation may help explain changes in effectiveness over time (1983: 735-52).

### **6.2.3. Tactical innovation**

#### **Pace of insurgent and tactical innovation**

McAdam argues that challengers lacking institutionalized power must devise protest techniques that offset their powerlessness. This is referred to as a process of tactical innovation. He describes the process as follows. The central difference among political actors is captured by the idea of being inside and outside of polity. Challengers (or outsiders) lack the basic prerogative of members. Thus, the key challenge confronting insurgents, then, is to devise some way to overcome the basic powerlessness that has confined them to a position of institutionalized political impotence. The solution to this problem is pre-eminently tactical. Ordinarily, insurgents must bypass routine decision-making channels and seek, through use of noninstitutionalized tactics, to force their opponents to deal with them outside the established arenas within which the latter derive so much of their power. In a phrase, they must create negative inducements to bargaining.

In most cases, then, the emergence of a social movement attests to at least limited success in the use of disruptive tactics. It must either extend its initial successes into positions of institutionalized power (as, for instance, the labour movement did) or continue to experiment with noninstitutional forms of protest. However, even the most successful tactic is likely to be effectively countered by movement opponents if relied upon too long. Barring the attainment of significant institutionalized power, then, the pace of insurgency comes to be crucially influenced by (a) the creativity of insurgents in devising new tactical forms, and (b) the ability of opponents to neutralize these moves through effective tactical counters. These processes may be referred to as tactical innovation and tactical adaptation, respectively. Together they define an ongoing process of tactical interaction in which insurgents and opponents seek, in chess-like fashion, to offset the moves of the other. How well each succeeds at this task crucially affects the pace and outcome of insurgency (1983: 735-6).

### **Political/organizational context and tactical innovation**

McAdam also mentions that as important as the process of tactical innovation is, it derives much of its significance from the larger political/organizational context in which it occurs. That is, the process only acquires significance in the context of the more general factors that make for a viable social movement in the first place. He stresses the importance of two structural factors in the emergence of widespread insurgency. The first is the level of indigenous organization within the aggrieved population: the second, the alignment of groups within the larger political environment. The first can be conceived of as the degree of organizational readiness within insurgent groups and the second, as the structure of political opportunities available to insurgent groups. As necessary, but not sufficient, conditions for social insurgency, both factors are crucial prerequisites for the process of tactical innovation. Indigenous organizations furnish the context in which tactical innovations are devised and subsequently carried out. Such organizations serve to mobilize community resources in support of new tactical forms and to supply leaders to direct their use, participants to carry them out, and communication networks to facilitate their use and dissemination to other insurgent groups (1983: 736-7).

However, even with a conducive political environment and the presence of strong movement organizations, insurgents face a stern tactical challenge. Their opponents can be expected, through effective tactical adaptation, to neutralize the new tactic, thereby reinstituting the original power disparity between themselves and the challenger. To succeed over time, then, a challenger must continue its search for new and effective tactical forms (Ibid: 752).

### **6.3. Organizational learning**

Theorists of OL generally perceive it as a process of adaptation to environmental changes. However, organizations frequently fall into the “competence trap”; they think that they do not need to learn more (Levitt and March, 1988: 319), and rely instead on routines. Consequently, they fail to respond to new environmental changes or challenges as many ancient civilizations have done and disappeared. OL theorists have sought to identify ways in which organizations learn the appropriate lessons and retain

what is good while avoiding or discarding what is bad (Clegg et al., 2005: 367-8). This section summarizes their perspectives and attempts to apply them to trade unions.

### 6.3.1. Definition of OL

The application of OL is increasingly popular in academic disciplines that are interested in competitive efficiency and innovation. OL occurs when an organization learns lessons from the mistakes it has made. However, there are various perspectives of OL. Argyris and Schön (1978: 3) argue that “OL occurs when errors are detected and corrected in ways that involve the modification of an organization’s underlying norms, policies, and goals.” Fiol and Lyles (1985: 377) define learning as “the process of improving actions through better knowledge and understanding.” Dodgson (1993: 377) describes OL as “the ways organizations build, supplement, and organize knowledge and routines around their activities and within their cultures, and adapt and develop organizational efficiency by improving the use of the broad skills of their workforces.” Lastly, Crossan et al. (1999: 522) argue that “OL can be conceived of as a principal means of achieving the strategic renewal of an organization. Renewal requires that organizations explore and learn new ways while concurrently exploiting what they have already learned.”

Therefore, “there is no theory or model of OL that is widely accepted although there exist widespread acceptance of the notion of OL and its importance to strategic performance. It is because researchers have approached the subject from different perspectives, leading to more divergence” (Fiol and Lyles, 1985: 803). Crossan et al. (1999: 522) also observe that, “in large part, convergence has not occurred because different researchers have applied the concept of OL, or at least the terminology, to different domains”. For examples, theorists have referred to learning as (a) new insights or knowledge (Hedberg, 1981); (b) new structures (Chandler, 1962); (c) new systems (Miles, 1982); and (d) mere actions (Cyert and March, 1963). They have also referred to the following phenomena as learning; adaptation (Meyer, 1982; Levitt and March, 1988), change (Dutton and Duncan, 1983), and unlearning (Nystrom and Starbuck, 1984) (Fiol and Lyles, 1985: 803). Although therefore there are various approaches to OL the common assumption is that it will improve future performance and raise the probability of survival in changing environments.

Scholars argue that there are distinctions between individual learning and OL. Hedberg states it this way: “Although OL occurs through individuals, it would be a mistake to conclude that OL is nothing but the cumulative result of their members’ learning. Organizations do not have brains, but they have cognitive systems and memories. As individuals develop their personalities, personal habits, and beliefs over time, organizations develop world views and ideologies. Members come and go, and leadership changes, but organizations’ memories preserve certain behaviours, mental maps, norms, and values over time” (1981: 6).

Fiol and Lyles contend that much of the individual learning theory that deals with repetition of speech and motor skills does not characterize OL, at least at the strategic level, in situations that are mainly unique and nonrepetitive. OL enables organizations to build an organizational understanding and interpretation of their environment and to begin to assess viable strategies. It results in associations, cognitive systems, and memories that are developed and shared by members of the organization (1985: 804).

Argyris and Schön argue that in order for OL to occur, learning agents’ discoveries, inventions, and evaluations must be embedded in organizational memory. They must be encoded in the individual images and the shared maps of organizational theory-in-use from which individual members will subsequently act. If this encoding does not occur, individuals will have learned but the organization will not have done so. Thus, learning systems, the content of which is the accumulation of histories, experiences, norms, and stories, not only influence current employees but also future members of the organization (1978: 29).

### **6.3.2. Levels of OL**

There are two significant arguments concerning learning development within organizations. First, Argyris and Schön describe three types of OL, single-loop learning, double-loop learning and deutero-learning. Single-loop learning refers to the error-detection and error-collection process, and it occurs when the error detected and corrected permits the organization to carry on its present policies or achieve its present objectives. Thus, “its members respond to error by modifying strategies and assumptions within constant organizational norms”. In other words, it can be equated to activities that add to the knowledge-base or firm-specific competences or routines

without altering the fundamental nature of the organization's activities (1978:18-29). Such learning happens within a given frame of reference. The parameters are given and clearly defined, and the learning experience focuses on how to optimize an organization's capacity within this frame (Clegg et al., 2005: 353).

Double-loop learning occurs when, in addition to detection and correction of errors, the organization is involved in the questioning and modification of existing norms, procedures, policies, and objectives. In other words, "response to detected error takes the form of joint inquiry into organizational norms themselves, so as to resolve their inconsistency and make the new norms more effectively realizable". Double-loop learning questions the business an organization is in, its culture and its strategic vision whereas single-loop learning is important for incremental performance improvement. Double-loop learning represents an ability to reflect on the single-loop learning processes and to understand when fundamental change is required (Ibid: 353).

Deutero-learning occurs when organizations learn how to carry out single- and double-loop learning. It involves changing the organization's knowledge-base or firm-specific competences or routines.

Argyris and Schön argue that when an organization engages in deutero-learning its members learn about previous contexts for learning. They reflect on and inquire into previous episodes of OL, or failure to learn. They discover what they did that facilitated or inhibited learning; they invent new strategies for learning; they produce these strategies, and they evaluate and generalize what they have produced. Thus, "its members learn about OL and encode their results in images and maps" (1978: 27-9). Mason (1993: 841) defines strategic learning as that process (deutero-learning) by which an organization makes sense of its environment in ways that broaden the range of objectives it can pursue or the range of resources and actions available to it for processing these objectives.

Secondly, Fiol and Lyles (1985: 807) define two levels of learning, lower- and higher-level learning. Lower-level learning occurs within a given organizational structure, or a given set of rules. It leads to the development of some rudimentary associations of behaviour and outcomes, but these usually are of short duration and impact only part of what the organization does. It is a result of repetition and routine and involves

association building. Cyert and March (1963: 20-1) identify success programs, goals, and decision rules as illustrative of learning based on routine. Because of this reliance on routine, lower-level learning tends to take place in organizational contexts that are well understood and in which management thinks it can control situations.

Higher-level learning, on the other hand, aims at adjusting overall rules and norms rather than specific activities or behaviours. The associations that result from higher-level learning have long-term effects and impacts on the organization as a whole. This type of learning occurs through the use of heuristics, skill development, and insights. It therefore is a more cognitive process than is lower-level learning, which is the result of repetitive behaviour. Some type of crisis is necessary for changes in higher-level learning; examples include a new strategy, a new leader, or a dramatically altered market. The desired consequence of this type of learning is often not any particular behavioural outcome, but rather the development of frames of reference, or interpretive schemes. That is, new cognitive frameworks within which to make decisions. In fact, “unlearning” may be one of the most important consequences (Nystrom and Starbuck, 1984).

### **6.3.3. Process of OL**

There are two leading perspectives on the process of OL, one developed by Huber, the other by Crossan et al. Huber (1991: 90) identifies four steps in the OL process; information acquisition, its distribution, its interpretation, and organizational memory. As a first step, learning occurs when an organization acquires knowledge. Acquisition of declarative knowledge or facts and information is achieved by monitoring the environment, using information systems to store, manage, and retrieve information, carrying out research and development, carrying out education and training, patent watching, and bibliometrics (Dodgson, 1993: 381). Learning within an organization occurs not only as a result of acquiring knowledge from outside the organization but also when existing knowledge is rearranged (i.e. the revision of previous knowledge structures, and the building and revision of theories). Secondly, information distribution refers to the process by which an organization shares information among its units and members, thereby promoting learning and producing new knowledge or understanding. Knowledge in the form of tacit know-how, letters, memos, informal conversations, and reports are captured and distributed. In the third of Huber’s steps, information must be interpreted in order to be shared. Information interpretation is the process by which

distributed information is given one or more commonly understood meanings. Sense-making or the formation of meaning is called “procedural knowledge” (Dodgson, 1993: 380). Huber (1991: 91) states that individuals and groups have prior belief structures which shape their interpretation of information and thus the formation of meaning. These belief structures are stored as a rule-base or a profile which is automatically applied to any incoming information in order to form meaningful knowledge that can be stored. And, fourthly, organizational memory refers to the repository where knowledge is stored for future use. It is also called “corporate knowledge or corporate genetics” by Prahalad and Hamel (1994). Decision makers store and retrieve not only hard data or information but also soft information (i.e. information with meaning). This soft or interpreted information can be in the form of tacit know-how, expertise, biases, experiences, lists of contacts, anecdotes, etc. Both the demonstrability and usability of learning depend on the effectiveness of the organization’s memory. The major challenge for organizations lies in interpreting information and creating organizational memory that is easily accessible. Huber’s identification of OL processes will be adequate to explain the OL of top-down organizations. However, it is more difficult to explain the OL of bottom-up ones.

Crossan et al. (1999: 525) argue that OL is a multi-level process that begins with individual learning, leads to group learning, and then to OL. These levels, they argue, are connected by bi-directional processes that involve both the creation and application of knowledge (they describe the total process as “strategic renewal”). More specifically, they describe four processes that connect individual learning to OL; intuition, interpreting, integrating, and institutionalizing. They define these four processes as follows:

Intuition is the preconscious recognition of the pattern and/or possibilities inherent in a personal stream of experience. This process can affect the intuitive individual’s actions, but it only affects others when they attempt to interact with that individual. Interpreting is the explaining, through words and/or actions, of an insight or idea to one’s self and to others. This process goes from the preverbal to the verbal, resulting in the development of language. Integrating is the process of developing shared understanding among individuals and of taking coordinated action through mutual adjustment. Dialogue and joint action are crucial to the development of shared understanding. Institutionalizing is the process of ensuring that routinized actions occur. Tasks are defined, actions specified, and organizational mechanisms put in place to ensure that certain actions occur. Institutionalizing is the process of embedding learning that has occurred by individuals and groups into the organization,

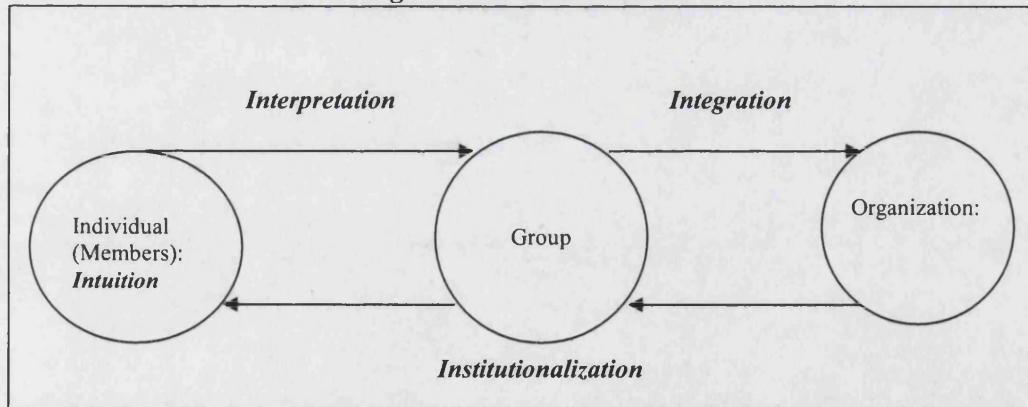
and it includes systems, structures, procedures, and strategy (Crossan et al., 1999: 525).

They also argue that:

OL is a dynamic process. Not only does learning occur over time and across levels but it also creates a tension between assimilating new learning (feed forward) and exploiting or using what has already been learned (feedback). Through feed forward processes, new ideas and action flow from the individual to the group to the organization levels. At the same time, what has already been learned feed back from the organization to groups and individual levels affecting how people act and think. The concurrent nature of the feed forward and the feedback processes creates a tension, which can be understood by arraying the levels against one another. In addition to the processes that feed forward learning from the individual and groups to the organization, learning that has been institutionalized feeds back and impacts individual and group learning. The importance of these interactions can be highlighted by two relationships that are especially problematic (Crossan et al., 1999: 532).

It is argued that Crossan et al.'s four processes of OL can explain properly the processes of interaction between feed forward and feedback regarding learning within a union in which decisions are made by democratic procedures (i.e. in a bottom-up decision-making structure). Thus, these processes of OL will be used in the analysis of union learning as it affects strike strategy-making.

**<Figure 6-3> Processes of OL**



Source: Crossan et al. (1999)

#### 6.3.4. Influences on OL

Dodgson (1993: 378) states that learning is stimulated both by environmental changes and internal factors (individuals, culture, etc) in a complex and iterative manner. Fiol and Lyles (1985: 807) state that four contextual factors, environment, structure, culture,

and strategy, affect the probability of learning occurring. Thus, an organizational culture conducive to learning, a strategy that allows flexibility, an organizational structure that allows both innovativeness and new insights, and the environment within which the organization operates are all key contextual factors. These have a circular relationship with learning in that they create and reinforce learning and are created by learning.

The adoption of certain structures and strategies encourages learning. Strategy influences learning by providing a boundary to decision-making and a context for the perception and interpretation of the environment. The strategic options chosen depend on the learning capacity of the organization. The amount of information flow or communication between organizational units and individuals determines learning. Poor communication between people and organizational units can be a major block to learning and quality improvement. Organizational culture (beliefs, ideologies, values, and norms) and the amount of resources (money and personnel) also determine the quality and quantity of learning.

OL occurs as a result of the interplay of various factors such as structure, strategy, environment, technology, and culture (Fiol and Lyles, 1985: 807). More and more organizations have realized that in order to be successful in a highly competitive environment, they must encourage double-loop and deutero-learning (or higher-level learning). The implications of not becoming a learning organization can be costly. .

#### **6.3.5. Facilitators and inhibitors of OL**

OL is stimulated both by environmental changes and internal factors in a complex and iterative manner. Organizations purposefully adopt structures and strategies to encourage learning (Dodgson, 1993: 37). They are not totally reactive, and can proactively seek to influence the environment in which they learn. The relationship between strategy and structure, and the role of strategy acting as an intermediary filter between the environment and the organization has long been a focus of interest in the management literature (Chandler, 1962, 1990; Ansoff, 1965; Weick, 1979, 1995; Porter, 1980, 1985, 1996; Weick and Westley, 1999). Ganz argues that “organizational structures that afford members venues for regular, open and authoritative deliberation; draw resources from a diversity of salient constituencies; and hold leaders and rank-and-file accountable to each other are more likely to generate effective OL than those that do

not" (2000: 1016). Facilitators of OL can also include the endowment of motives, the development of formal R&D structure, the introduction of new technologies (for better communications, rapid delivery of information, and effective education), the high level of trust in organizations, external challenges (or crises), and previous failures (Dodgson, 1993; Morgan, 1997; Ganz, 2000).

Argyris and Schön argue there are two kinds of inhibitory loops, primary ones and secondary ones. The former is a self-reinforcing cycle in which errors in action provoke individuals to behaviours which reinforce those errors. The latter is group and inter-group dynamics which produce conditions for error (ambiguity, vagueness, etc). They also contend that organizations tend to create learning systems that inhibit double-loop learning, calling into question their norms, objectives, and basic policies. They call this tendency "defensive routines"; when people feel threatened or vulnerable they often engage in defensive routines designed to protect themselves and their colleagues. That is, people find ways of obscuring or burying issues and problems that will show them in a bad light and of deflecting attention elsewhere (1978: 3).

Morgan explains how departmental structures focus the attention of their members on parochial rather than organization-wide problems; how systems of accountability frequently foster defensiveness in attitudes; and how statements of what they do and what actually occurs varies. He argues that bureaucratization tends to create fragmented patterns of thought and action. Where hierarchical and horizontal divisions are particularly strong, information and knowledge rarely flow in a free manner. Different sectors of the organization thus often operate on the basis of different pictures of the total situation, pursuing subunit goals almost as ends in themselves. The existence of such divisions tends to emphasize the distinctions between different elements of the organization and fosters the development of political systems that place yet further barriers in the way of learning (1997: 88-9). Inhibitors of OL can include successive successes and the presence of obstacles to unlearning.

### **6.3.6 Discussion of OL**

Sceptics (including labour process theorists) have raised questions about the claim that organizations learn; these hinge on assumptions about the critical importance of relationships among individual, interpersonal, and higher levels of social aggregation. They have challenged the desirability of OL, arguing that organizations may learn in

ways that foster evil ends or reinforce the status quo. They claim that the ideal of the learning organization may be used to support a subtler and darker form of managerial control, or, further, that organizations can codify what is unimportant and inconsequential while missing that which is profound because it is so deeply embedded in the normal ways of doing things. Furthermore, they contend that the results of OL sometimes become dysfunctional. Superstitions or path dependency or organizational success stories can create the inability or unwillingness to change (Fiol and Lyles, 1985: 808; Martin and Ross, 1999:4; Clegg et al., 2005: 368). Thus, some academics have observed and categorized phenomena, inhibitors of OL, which function as impediments to valid inference and effective action (see Section 6.3.5).

Brunsson argues that nonlearning organizations are healthier than learning ones, an idea directly opposed to the commonly accepted view that there is a positive relationship between learning and organizational performance. According to Brunsson, the learning organizations have to change, adjust, and align all the time, whereas nonlearning organizations can deal with contradictions, inconsistent demands, and gaps between ideal worlds and actual reality; the latter are emancipated because they can disregard the need for change that drives learning organizations (Brunsson, 1998: 421).

Weick and Westley (1999: 190) claim that learning and organizing are essentially antithetical processes; organizational learning is thus an oxymoron. This is because organizing is all about ordering and controlling (decreasing variety) whereas learning is about disorganizing and increasing variety. Thus, they understand learning as a process that is possible only in those spaces where order is juxtaposed with disorder. Learning thus happens when the old and the new clash and create a tension (Clegg et al., 2005: 379-81).

On the basis of the above critical evaluations of OL, we can argue that creating a learning organization is only half the solution to a challenging problem. Equally important is the creation of an unlearning organization which essentially means that the organization must forget some of its past. In other words, to change organizational culture formed through its routines, practices, processes, and stories - the store of knowledge - organizations must both relinquish old habits and learn new ways. Thus, learning occurs amidst such conflicting factors. In addition, if organizations do not have the capacity to absorb or utilize individual learning the investment in learning could be

meaningless and counterproductive. Yet, it is important to note that not all intuitive insights should, or can, be immediately interpreted, integrated, and institutionalized. What enables the organization to separate the wheat from the chaff as ideas and practices develop and are refined over time? It should be strategic contexts that help to frame things that are more or less relevant, (although the decision rules, criteria, and processes are not so clear) (Hedberg, 1981: 3; Dodgson, 1993: 385; Prahalad and Hamel, 1994; Clegg et al., 2005: 350).

Much of the QL literature highlights the significance of OL for competitiveness and the proactive role of strategy in its stimulation. However, much of its analysis of learning is limited to its outcomes, and it ignores or underestimates the problems and complexities in the processes of learning. Thus, even though there are some areas of agreement, there remains a great disparity<sup>82</sup> in the fundamental underlying assumptions of different approaches, such as the differing focuses on outcomes and processes (particularly, between top-down organizations like firms and bottom-up organizations like unions). Synthesis of these differing approaches, and the development of an interdisciplinary perspective, will have particular value for the continuing study of OL (Dogson, 1993: 391; Crossan, et al., 1999).

Furthermore, there is little QL literature on democratic, bottom-up organizations like trade unions whose decision-making processes and agendas<sup>83</sup> may be very different to those of top-down organization like firms. Thus, a deep examination of OL in unions (including studying learning mechanisms that unions use through their structures and strategies and the way they use motives to learning), based on mobilizations in the Korean banking sector between 1998 and 2003, would be very valuable, not only filling a specific gap in the literature but also contributing to the study of contemporary organizational behaviour.

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<sup>82</sup> Huzzard (2000: 353) notes that “orthodox texts on OL reflect a view of management which is top-down, managerialist and suppressive of marginalized voices. Those have very often an assumption that all members of the organization learn the same things according to the same-set of values. A critical perspective, however, sees organizations not just as pluralistic arenas but also as arenas where interests of groups in the organization are differentiated by power and ideology (Fox, 1974)”.

<sup>83</sup> For example, fair wage, satisfying working conditions, industrial democracy, and solidarity are top on the list of OL for unions while productivity, efficiency, and competitiveness are top on the list of OL for management.

In spite of sceptics of OL, a discourse based on learning has surely offered better chance of progress in the form of small wins (Huzzard, 2001: 429). Thus, the grafting of the concepts of OL to unions and the development of new theory regarding unions would be urgent and indispensable tasks as union power has rapidly decreased since 1980s. Previous theories of union revitalization look like the start of the study of union learning.

### **6.3.7. OL in unions**

#### **6.3.7.1. Unions and learning**

A union is an organization and, thus, learns like other organizations. Zoll (unpublished manuscript) argues that unions are learning organizations. They try to adapt to changing circumstances, they initiate processes of organizational development or they try to deal with the future of public services. They have learnt, or endeavour to keep learning, how to cope with recurrent problems. In other words, they conduct OL that helps them to interpret new situations and to form new routines in coping with problems.

To aid this learning, unions have organized public conferences and invited scientists and trade union experts to discuss various problems. These discussions have sometimes led to prolonged debates between officials and interested members of the union. The discussions have influenced not only the resolutions of the union's congresses but also their bargaining policies (and fighting strategies). These patterns have an inner logic that is self-confirming; they help to interpret reality, and because they do so they fit to reality, and because they fit to reality they are confirmed. However, this self-confirmation can become an obstacle to any transformation (i.e. either new learning or new learning strategy). Martin and Ross note that "unions are path dependent<sup>84</sup>, constrained organizationally by their pasts. They tend to move in directions which will not threaten shared ideas, values, and habits and learning will be skewed towards what is already known" (Martin and Ross, 1999: 4). Thus, unions are required to engage in higher-level learning because they do not wish to simply repeat learned reactions but

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<sup>84</sup> "Unions navigate with an undisciplined, sometimes mutinous, crew, an unwieldy chain of command and inherited, often inaccurate, maps about the unpredictable waters around them. They are thus likely to be conservative often discounting longer term threats in favor of short run satisficing, in part to avoid costly and organizationally difficult changes. They may even take head-in-the sand positions undervaluing fundamental change" (Martin and Ross, 1999:4).

need to use patterns that are interconnected learned reactions (Zoll, unpublished manuscript).

There are some differences (discussed in Section 1.3.2) between the OL of unions and that of firms due to the differences of their characteristics and interests. For example, while unions organize their actions in democratic processes, firms organize themselves in rather non-democratic ways. The democratic decision-making procedures of unions have considerably influenced the ways that they learn. Considering these differences, it is probably unsurprising that few scholars have dealt with OL in unions. Thus, it is necessary to develop theories that deal with QL in labour unions or other organizations (e.g. Non-Government Organizations) which operate according to voluntary and democratic principles.

Drinkuth et al. argue that: "There are two major obstacles that unions meet when QL is concerned: one is an ideology of conflict, which creates a unified institution intent on perpetuating its legitimacy through strategies of opposition, and another is a perspective according to which power is based on control over capital. In short, unions have a traditionally reactive action repertoire of strategies for action. This repertoire has limited the ways in which unions have been able to adapt to and influence economic development at the national, regional, and company levels" (2001: 456).

### **Union revitalization**

However, since the 1980s, confronted with such deep and constant structural changes, unions have been discovering that learning is not only relevant but even necessary for their survival and development. One type of learning in unions can be seen in the processes through which they have responded to restructuring conducted by employers and the government. Another type of learning can be seen in the questioning of traditional tactics in labour relations and the search for new strategies (Ibid: 449).

Unions are now experimenting with a host of new ideas and practices in the name of union revitalization<sup>85</sup> (or renewal) designed to rebuild their membership and restore them to a position of strength vis-à-vis employers and governments. This strategic

<sup>85</sup> However, there are critics who claim that the union renewal model through organizing centres on a union's own political and strategic inadequacies as ends in themselves (Fletcher and Hurd, 1998: 52; Fairbrother and Yates, 2003: 24). Thus, there is a need to build links between organizing for self-interest and organizing for social justice and a transformation of the broader political regime based on a new mobilized and oppositional working class (Gindin, 1995: 268).

realignment by unions has included rationalization through reorganizing the organized (such as mergers between unions<sup>86</sup> or strengthening of union democracy and solidarity), an emphasis on organizing the unorganized, and an experimentation with new forms of partnership between unions and employers<sup>87</sup> (Fairbrother and Yates, 2003: 2). Especially in US unions, debate over organizing strategies has distinguished two models of union revitalization; “the service model”, in which local union leadership tries to help members by solving problems for them versus “the organizing model”, in which solutions are found which include using both internal and external resources (Diamond, 1988: 6). Banks and Metzger argue that the service model is equal to stale unionism, an overreliance on union staff and the grievance and arbitration process and a passive membership while the organizing model visualized focusing on collective action and militancy. They also contend that through the involvement of many more people in their daily life unions would be able to take on and solve more problems (1989: 50). The main contents of the organizing model are; 1. Members have to be active participants in the way unions organize and operate, thereby contributing to the collective focus and practice of the union. 2. Members have to be encouraged and trained to take responsibility for solving their own and the collective’s problems and to take an active role in extending union membership through organizing. The emphasis in training is on collective problem solving and self-sufficiency, with the intention of taking pressure off full-time officials. 3. Problems are often solved in creative fashions, circumventing established institutions, and placing direct pressure on employers through community and workplace activism (Fairbrother and Yates, 2003: 19; Schenk, 2003: 247).

Carter evaluates the results of the organizing approach as follows:

The organizing approach frequently leaves unanswered a series of questions about the strategic direction of the labour movement, including the constituencies of unions, and how issues of globalization and international solidarity are addressed. The weaknesses of labour are political as well as industrial, and the organizing approach, while a necessary prerequisite for the viability of effective political organization and representation, is frequently silent on these issues. In the hostile conditions of contemporary capitalism, trade union organizing is a necessary but insufficient step towards the confidence and self-emancipation of labour (2006: 422-3).

<sup>86</sup> Carter argues that a major impetus for the mergers will have been the failure to see benefits from its implementation of an organizing strategy (in the case study of MSF) because the mergers will not to strengthen organizing but to stall further successive rounds of demoralizing rationalization and cuts in expenditure and resources (2003: 180, 198).

<sup>87</sup> Carter argues that “the results of union revitalization in the UK have faced more detailed challenges from those not opposed to the idea of the need for union renewal, but who have difficulty being convinced of the detail and extent of the process (2004: 140).

The next section looks at the detailed content of OL in unions, using the OL theories discussed earlier as a basis.

#### **6.3.7.2. Content of union learning**

The content of OL in unions is, in many respects, similar to that in firms, although interest, level of decision-making, leaders' motives, and organizational boundaries are different as discussed in Section 1.3.2. The similarities, however, are many. First, a union, like any organization, learns when it incorporates into its policies and actions lessons from the mistakes it has made. In other words, OL in unions occurs when errors are detected and corrected, thus strengthening their recent policies and improving the likelihood of the achievement of their goals (Argyris and Schön, 1978: 3). Unions build, supplement, and organize knowledge and routines around their activities and within their cultures, and adapt and develop organizational efficiency by improving the use of the broad skills of their organizations (Dodgson, 1993: 377).

Secondly, the goals of union learning can be aligned with union activities. A common explanation of the need to learn is the requirement for adaptation and improved efficiency in times of change. Some theorists of OL (Weick, 1979; Meyer, 1982; Levitt and March, 1988), for example, see learning as the highest form of adaptation, raising the probability of survival in changing environments. A learning organization is one which attempts to develop. This development is reflected in strategies and structures which purposefully facilitate and coordinate learning in rapidly changing and conflicting circumstances (Dodgson, 1993: 377).

Thirdly, the levels of union learning can be divided, like other organizations, into lower-level and higher-level learning. Lower-level learning refers to an error-detection and error-collection process which, however, once addressed, only leads to the organization carrying on as before. Higher-level learning occurs when, in addition to the detection and correction of errors, the organization questions and amends its norms, procedures, policies, and objectives; it aims, therefore, at the adjustment of overall rules and norms to adapt in changing environments and to improve efficiency. Thus, when a union engages in high-level learning its members (including its leaders) learn about previous contexts for learning. They reflect on, and inquire into, previous episodes of OL, or

failures to learn. They discover what they did that facilitated or inhibited learning. Thus, they invent new strategies for learning, and they evaluate and generalize what they have produced (Argyris and Schön, 1978: 27).

Fourthly, OL in unions is a multi-level process that begins with individual learning, leads to group learning, and then to OL. Again, like other organizations, these levels are connected by bi-directional processes that involve both the creation and application of knowledge. And, the processes that link individual learning to OL are interpreting, integrating, institutionalizing, and intuiting (Crossan et al., 1999: 525). For interpreting, union members generally engage in dialogue with other members or union officers, at small group meetings, or via computer communication systems (through which information is created and disseminated). For integrating, union members use agenda setting at formal meetings (e.g. at representatives' meetings such as National Congress), or suggestions to union officers through a union's Internet homepage and suggestion box. New norms are established in this process. For institutionalizing, unions promote the establishment of information transfer systems or new organizational structures, such as education courses or centres, publications (e.g. union newspapers), and computer networks (e.g. union homepages). For intuiting<sup>88</sup>, unions generally utilize education courses, union newspapers, meetings, and participation in collective actions in order to help members extend their intuition (note: the intuition occurs at the individual level). Together, these four processes form a learning loop, as the effect of new institutionalizations of organizational members' experiences feed into their individual intuitions (Figure 6-4). Thus, the learning process in unions is dialogical (Offe and Wiesenthal, 1985: 193).

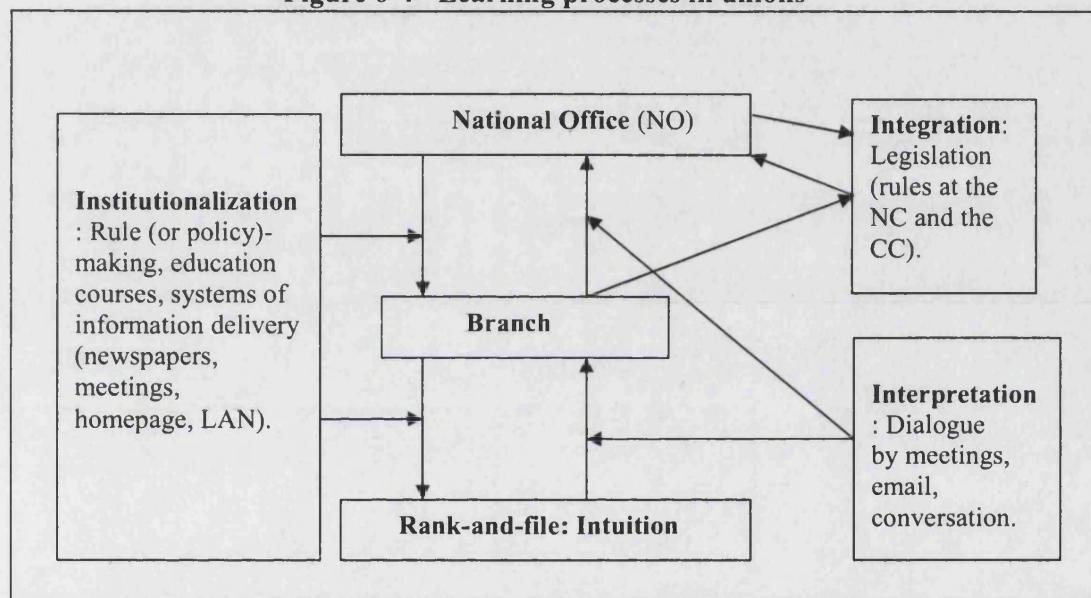
Crossan et al. (1999: 525) argue that a key factor of the transformation of new ideas into "coherent, collective action" is the political will and skill of those attempting to make this transformation. Lawrence et al. suggest the forms of power related to the four processes of OL: 1. the interpretation of a new idea is best facilitated by a political strategy that involves the use of influence and is based on access to relevant expertise and/or appropriate skills. 2. The integration of a new idea requires a political strategy that involves the use of force based on formal authority. 3. The institutionalization of a new idea requires for its facilitation a political strategy that involves systems of domination. 4. The intuitions will best be facilitated by a political strategy that involves

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<sup>88</sup> Intuiting refers to the processes that help members extend their intuition.

systems of discipline providing deep levels of experience and consistent bases for identity formation. More specifically, they argue that influence is useful to overcome the ambiguity and uncertainty associated with interpretation, that force facilitates the accomplishment of collective action in the integration process, that domination overcomes potential resistance to change and thus supports institutionalization, and that discipline supports the development of the expertise that is necessary to foster intuition (2005: 188).

**<Figure 6-4> Learning processes in unions**



Source: The case of KFIU (Section 4.6.2.2.)

Fifthly, Fiol and Lyles (1983: 807) state that four contextual factors – culture, strategy, structure, and environment – affect the probability of learning occurring. If an organizational culture facilitates and encourages learning, learning will beget learning. How do these factors apply to unions? 1. An organization's culture manifests itself in the overriding ideologies and established patterns of behaviour. Culture consists of the shared beliefs, the ideologies, and the norms that influence organizational action-taking. In the case of unions, their cultures are generally voluntary, democratic and reactive (Drinkuth et al., 2001: 446). Therefore, learning in unions tends to be conducted in response to members and leaders' needs. (It means that unions tend to learn passively if they do not face crises.) 2. The strategic posture of an organization influences the goals and breadth of learning, and partially determines its learning capacity. Strategy determines the goals and objectives and the breadth of actions available for carrying out the strategy. Thus, strategy influences learning by providing a boundary to decision-

making and a context for the perception and interpretation of the environment. The current strategy of unions is to survive and to develop in changing environments. 3. The organization's structure plays a crucial role in determining learning processes. Union organizations are generally structured in two broad ways, as centralized organizations (as an industry-level body) and decentralized organizations (operating at the enterprise-level). Decentralized organizations facilitate the assimilation of new patterns and new norms by reducing the cognitive workload of individuals, but the fragmented learning at the enterprise-level is likely to lead to differences in learning between union members at the industry-level (Ibid: 449). On the other hand, centralized organizations facilitate the unification between members of new patterns and new norms by delivering those as unified methods. However, centralized organizations are likely to retard learning. Duncan (1973: 273) thus points out that different decision-making structures are needed in the same organizational unit, depending on the degree of flexibility that is required: A centralized, mechanistic structure tends to reinforce past behaviours, while a more decentralized structure tends to allow shifts of beliefs and actions (Foil and Lyles, 1985: 805). However, decentralized organizations may not have the networking capability to keep the parts connected (Kim, 1993: 46). 4. The environment is also a crucial factor. Until the end of the 1970s, unions in the UK enjoyed increases in both membership and power due to the stability of the political and economic situation. However, since the 1980s, both their numbers of members and their power have declined as a result of the globalization of capital and restructuring (derived from the Thatcher government's neo-liberalism policies). Unions recognize the necessity of learning in order to respond to these new challenges. Hedberg (1981: 5) notes that learning requires both change and stability, although too much stability within an organization can be dysfunctional (there is little inducement to learn and/or change if established behaviours never grow obsolete), while too much change and turbulence make it difficult for learners to map their environment (March and Olsen, 1976).

Lastly, facilitators and inhibitors of learning in unions differ significantly from that of firms, again due to the characteristics of unions (i.e. the fact they are democratic, voluntary and reactive). Due to their democratic and voluntary character, unions' activities tend to be influenced by the internal and external motives of their members. The internal motives are the sense of mission of the leaders, and the sense of justice and solidarity (comradeship) between members. The external motives are the desires for wage increases, improved working conditions, and the promotion of industrial

democracy. Those motives can become facilitators of union learning because of their tendency to promote voluntary learning (or creativity) of members. Hackman and Oldham (1976: 250) emphasize the meaningfulness attributed to the task by the person doing it as a source of creative motivation. That is, the motivation deriving from identity-forming values or the moral source that infuse one's life with meaning and one's work with meaningfulness are of particular importance (Ganz, 2002: 10). In addition, unions' members come from a variety of firms and hold a variety of jobs. This heterogeneous membership means that unions have access to more varied and better information. Ganz (2000: 1012) argues that the better the information about how to work within a particular domain the more likely people are to know how to deal with problems arising within that domain. This characteristic could become a facilitator of learning as well.

On the other hand, unions' reactivity (i.e. their reactive action repertoire) tends to inhibit learning because it promotes the ideology of conflict, defensive routines, and resistance to change (Drinkuth et al., 2001: 456). Other inhibitors of union learning include the scarcity of full-time officers, the propensity of centralized decision-making, ideological rigidity, the side effects of excessive competition between political factions, and the frequent change of leadership.

Examining these inhibitors in more details, firstly, defensive routines are those which individuals or organizations develop to protect themselves from threatening situations; for example, when individuals critically examine their own role in the organization (Argyris, 1999: 101). The effects of defensive routines are that they impede people's ability to discover how the very way they go about defining and solving problems can be a source of problems in its own right. Such defensive routines perpetuate themselves in organizational cultures that externalize blame and generate a sense of hopelessness and cynicism (Argyris, 1999: 45). Secondly, the scarcity of professional full-time officers impedes the storage, feedback, and re-creation of learning. Thirdly, the centralized structures of decision-making block learning because a centralized, mechanistic structure tends to reinforce past behaviours, whereas an organic, more decentralized structure tends to allow shifts of beliefs and actions (Foil and Lyles, 1985: 805). Fourthly, the role of anxiety, manifested, for example, as ideological rigidity, becomes an obstacle to OL. In such a case, once a pattern has been learned, anxiety alone is enough to keep the behaviour going if no shocks are ever again administered

(Schein, 1993: 87). Fifthly, excessive competition between political factions tends to hinder positive learning because the ruling party tends to oversample successes and undersample failures; in the case of opposition parties, the reverse usually applies. Lastly, the frequent change of union leadership (especially in Korea<sup>89</sup>) also interrupts OL because the personal learning of leaders tends to die with them, without being passed onto others. This (when one actor or unit learns but the whole does not) is called fragmented learning. Such learning is also typical of decentralized organizations in which it is difficult to network all the parts.

#### **6.3.7.3. Union organizational structure, learning, and strategic capacity**

Unions' organizational structures can generate OL. There are structural factors that promote deliberation, draw resource flows, and facilitate accountability (Figure. 6-5). Ganz (2000: 1016) argues that "organizational structures that afford members venues for regular, open and authoritative deliberation; draw resources from a diversity of salient constituencies; and hold leaders and rank-and-file accountable to each other are more likely to generate effective OL than those that do not". Organizational structures have a profound influence on innovativeness and strategy. Consequently, OL improves the strategic capacity of organizations.

Examining this subject in more detail, firstly, organizational members who take part in regular, open, and authoritative deliberation gain access to salient information, participate in a heuristic process by means of which they learn to use this information, and are motivated by commitment to choices they participated in making and upon which they have the autonomy to act. Regular deliberation facilitates initiative by encouraging periodic assessment of the organization's activities. Deliberation open to heterogeneous points of view enhances strategic capacity because 'deviant' perspectives facilitate better decisions, encourage innovation, and develop group capacity to perform cognitive tasks more creatively and effectively. Authoritative deliberation, in the sense that it results in actionable decisions, motivates actors both to participate in decisions and to implement that which is decided upon (Ibid: 1017).

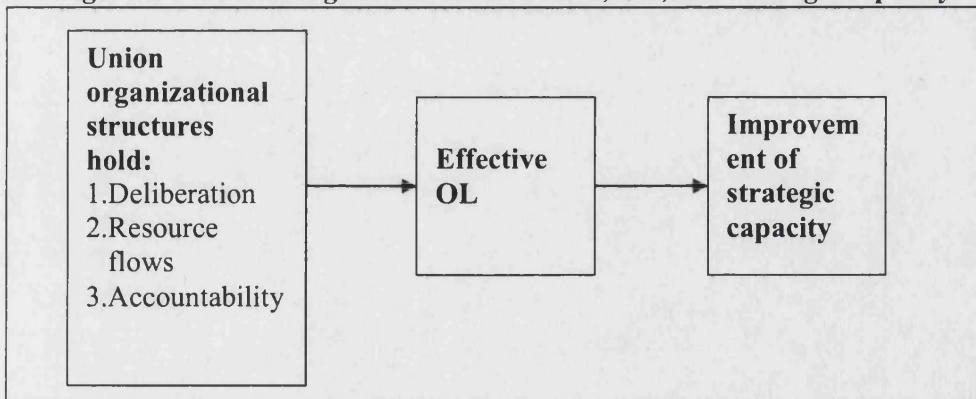
Secondly, organizations that mobilize resources from multiple constituencies enjoy greater strategic capacity than those that do not. Leaders who must obtain resources

<sup>89</sup> The service period of 85 percent of the incumbent full-time officers in the KFIU is less than three years (KFIU, 2004b).

from constituents must devise strategy to which constituents will respond. In addition, organizations that draw resources from multiple constituencies gain strategic flexibility because they enjoy the autonomy of greater room to manoeuvre. Lastly, accountability structures affect strategy by establishing routines for leadership selection and defining loci of responsiveness. Leaders selected democratically are at least likely to have useful knowledge of the constituency that selected them and enough political skills to have been selected if that constituency is within one's operating environment. Entrepreneurial or self-selected leaders are more likely to possess skills and intrinsic motivations associated with creative work (Ibid: 1018).

For example, the KFIU (the union with which this thesis is principally concerned) is structured (and operates) in such a way as to facilitate the three factors (deliberation, resource flows, and accountability) that generate OL (see Section 4.6.2.4). Firstly, KFIU has various channels which afford deliberation. Secondly, the union's members are employed in a wide variety of bank positions, as a result of an Article 6 (on the post-entry closed shop) in the Collective Bargaining Agreement (CBA)<sup>90</sup>. This means that the union is able to draw resources from multiple constituencies. Lastly, union leaders must be elected by their constituents, making them therefore accountable to the members. Therefore, we can conclude that KFIU executes OL through dialogical organizational structures (Figure 6-4) and that learning improves its strategic capacity.

**<Figure 6-5> Union organizational structure, OL, and strategic capacity**



<sup>90</sup> CBA: Article 6 (Scope and Qualification of Membership): Employees (some employers are exempt, according to TULRAA) become union members at the moment they are employed without any procedure of joining. Article 8 (Withdrawal of Membership): In cases in which a member wants to withdraw from the union he/she has to hand in an application of withdrawal to the union 60 days in advance; during that time the Union Executive committee reviews the application.

#### **6.3.7.4. Learning in unions and Mobilization**

How does learning in unions affect their mobilization? Offe and Wiesenthal (1985: 182) suggest an answer to the question. They argue that unions must be able to mobilize sanctions in order to succeed in accomplishing their interests. Then, the mobilization potential must be built up by communicative processes within unions, whose individual potential to sanction is minimal because of their atomization. In other words, unions' mobilization potential becomes effective only through organized members and the coordinated active participation of their members (namely, the willingness to go on strike) this potential is achieved by dialogical processes in the organization. The process of communication in unions is conducted by their organizational structures (Figure 6-4). The effectiveness of communication can increase when internal democracy is realized effectively. In other words, the level of OL in unions depends on a climate that leaders and rank members' 'intent' and 'will' to increase their strategic capacity through dialogical processes, namely, democratic processes in union instruments (or constitutional processes in unions; such four processes of OL) in order to adapt and overcome coming challenges (Cook, 1963: 16). On the other hand, in the union oligarchy, if leaders learn and rank members do not learn, then the union is more likely to fail to promote rank members' will to act and make a right strategy-making that rank members could accept.

The communication process in unions is an illustration of the four OL steps identified by Crossan et al. (1999: 525). As we have seen, they argue that OL is a multi-level process that begins with individual learning, leads to group learning, and then to OL. This process, importantly, is also bi-directional, thus assisting in constantly renewing the organization. OL is, therefore, a dynamic process. Not only does learning occur over time and across levels but it also creates a tension between the assimilation of new learning by feed forward and using what has already been learned by feedback. It means that organizational learning processes in unions by dialogical processes are indispensable for the promotion of the members' willingness to act. In other words, unions can increase their mobilization potential when they can get positive (higher-level) learning through OL (specifically, dialogical processes as part of internal democracy). Fiol and Lyles argue that the aim of higher-level learning is to adjust overall rules and norms (in order to adapt in changing environments and improve

organizations' efficiency) rather than specific activities or behaviours. The higher-level learning occurs through the use of heuristics, skill development, and insights (1985: 807).

## 6.4. Theoretical Framework

### 6.4.1. Hypothesis

How and why are some strikes more successful than others? There are arguments in the literature regarding the success and failure of collective actions (or organizations) from the mobilization perspective, the strategy perspective, and the OL perspective. Firstly, social movement mobilization scholars argue that explanations of the emergence, development, and outcome of social movements have been usually based on variation in resources and opportunities (McCarthy and Zald, 1973, 1977; Tilly, 1978; McAdam 1982; McAdam. et al., 1996; Evans, 1980; Morris, 1984). This means that social movements unfold as actors respond to new political opportunities and newly available resources. However, it can be more difficult to explain why one organization is able to utilize more effectively opportunities and resources than another which appears to be similarly placed, in terms of political opportunities and resource mobilization.

Secondly, Ganz (2000: 1012) argues that an organization is more likely to achieve positive outcomes if it develops an effective strategy using resources and opportunities. It is more likely to develop an effective strategy if its leaders can access diverse sources of salient information, employ heuristic processes, and demonstrate deep motivation. According to Ganz, the possibility that an organization will develop an effective strategy (so-called 'strategic capacity') is also derived from differences in leaders' life experiences, networks and repertoires, and organizations' deliberative processes, resources flows, and accountability structures. However, his argument possesses the same limitation identified above; that is, it does not adequately explain why same (or similar) organizations and same (or similar) leaders sometimes succeed and sometimes fail.

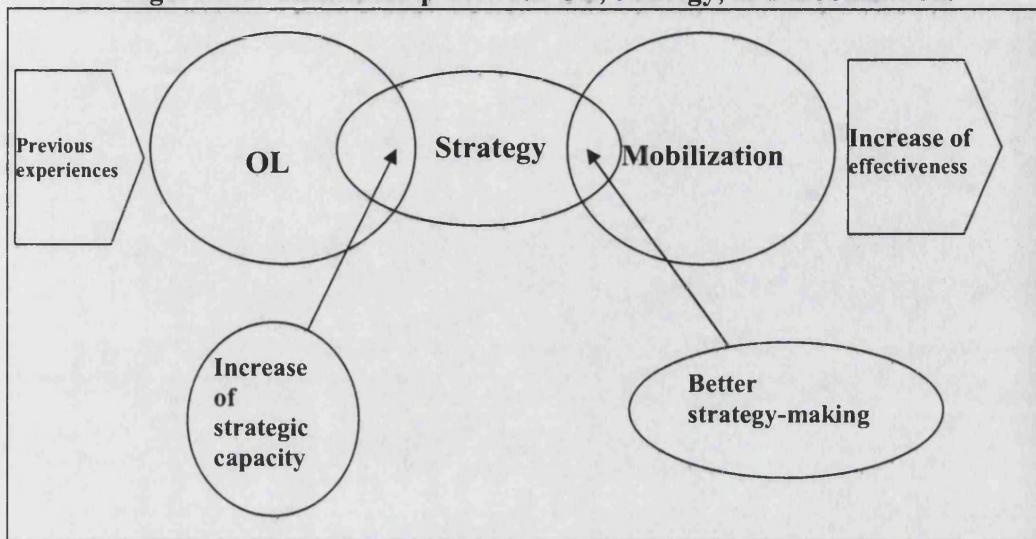
Thirdly, OL scholars (Argyris and Schön, 1978; Fiol and Lyles, 1985: 807; Dodgson, 1993; Mason, 1993; Crossan et al., 1999) argue that organizations learn by detecting

and correcting errors. They also argue organizations can gain higher-level learning when they are involved in the questioning and modification of existing norms, procedures, policies, and objectives in addition to the detection and correction of errors.

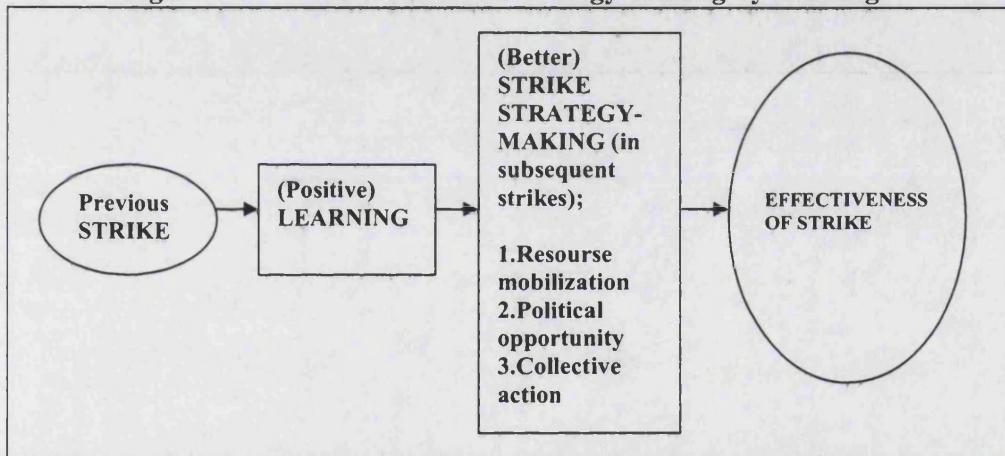
From the above three perspectives (mobilization, strategic capacity, and OL), we can assume that an organization (such as a union) could succeed in its battle (such as a strike) when it can make an effective strategy, exploiting opportunities and resources. And, that its strategic capacity might derive from OL. In other words, an organization having positive learning from previous experiences of success and failure is more likely to have a better strategy-making ability, one which uses opportunities and resources well.

On the basis of the assumption, I will explain that the difference of results in the case of strikes organized by the same (or similar) organization derives from the existence of positive learning (or OL) processes from previous strikes. In other words, when an organization experiences positive learning processes from previous strikes the organization's strategic capacity increases. Consequently, an organization can make a better, potentially more successful, strategy for future action based on opportunities and resources than an organization which has not had such experiences (Figure. 6-7). Nevertheless, an organization which has accumulated a lot of learning could still fail if its strategic capacity is damaged by internal friction, over-confidence, unpredictable environmental changes, and the ability of opponents to be able to utilize more effective counteractions. Johnston's argument (1994: 5) supports this hypothesis. He argues that "both unionists' and employers' assumptions and strategies collide when faced with new conditions. Each adapts to new conditions and learns – sometimes through painful experience – what succeeds and what fails".

<Figure 6-6> Relationship between OL, strategy, and mobilization.



<Figure 6-7> Processes of strike strategy-making by learning



#### 6.4.2. Adaptation of organization learning to mobilization theory

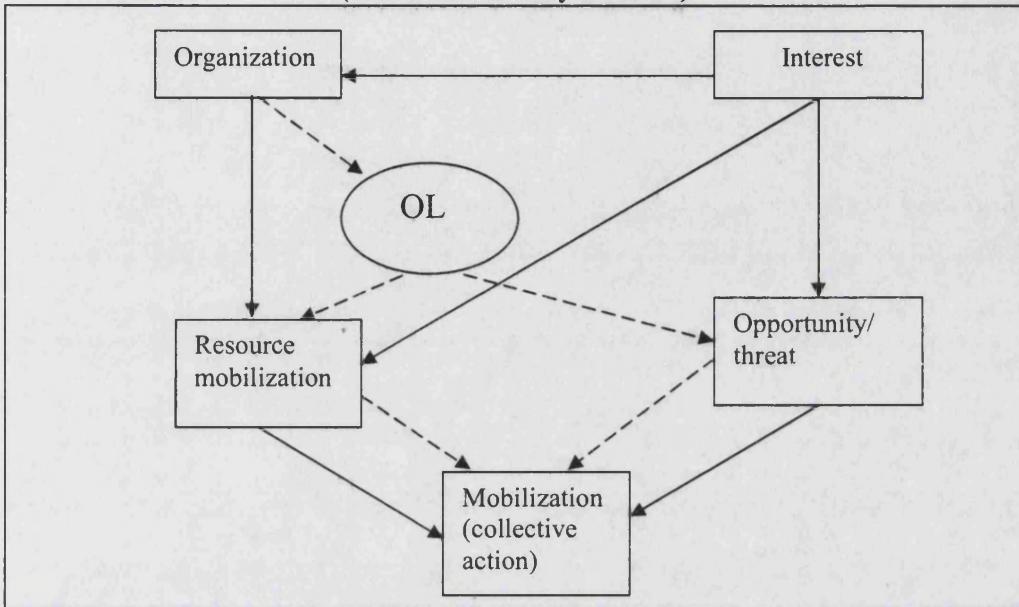
Based on the mobilization and OL theories discussed in this chapter, we can consider the ways they can be adapted to improve the effectiveness of mobilization. Tilly (1978: 56) argues that the main determinants of a group mobilization are its organization, its interest in the possible interaction with other groups, and the current opportunity/threat of those interactions. Thus, the extent of an organization's collective action is a result of its mobilization and the current opportunity and threats confronting its interests. Tilly's argument however is confined to the process of mobilization; organizations, though, may be interested in ways of extending the effectiveness of mobilization rather than the process. We can assume that that effectiveness (in the form of collective action) can be extended through positive learning (or OL). That is, an organization (or part thereof)

which utilizes its learning might be better able to mobilize (resources and opportunities) and exploit that knowledge in its future actions, as Figure 6-8 shows in its adaptation of OL to Tilly's mobilization theory. In addition, an organization's strategic capacity (in Ganz's (2000: 1012) terms, this involves the use of motivation, access to salient knowledge, and use of heuristic processes) could increase through OL as well. As a result, the organization could achieve more successful outcomes through the effective use of the main strategic factors, such as timing of initiatives, targeting of resources, and tactics to be deployed (Figure 6-9).

In the cases of strikes, unions can learn from both their successes and failures. The learning can be either positive or negative, depending on the union's learning attitude. Examples of positive learning would be higher-level learning, such as adjustment of overall rules and norms due to self-examination of problems and the recognition of the necessity of thorough preparation. An example of negative learning would be lower-level learning, such as reliance of routine due to over-confidence and negligence. Unions which gain positive learning from previous experiences could increase their strategic capacity for later strikes. On the other hand, if the learning is negative their strategic capacity is likely to decrease. Thus, unions gaining positive learning increase their chances of winning future strikes while those gaining negative learning are more likely to lose out in subsequent disputes (Figure 6-10). The examples of strike actions in the Korean banking sector illustrate this point well (see Chapters 5 and 7.).

In addition, it should be noted that, in the main, OL theory has been developed with top-down organizations in mind (i.e. enterprises in which decisions are, in effect, the Chief Executive Officer's imperatives). However, there are a lot of non-enterprise organizations which operate democratically (from the bottom up). Thus, it is necessary to develop an OL learning theory which is appropriate for an analysis of, and can be used by, democratic organizations such as trade unions. Learning at such democratic organizations needs to be conducted through dialogical processes between leaders and members. Failure to learn could result if the process is not dialogical, but simply directed from above (i.e. from the leaders' own knowledge) (see Section 7.4.1.3).

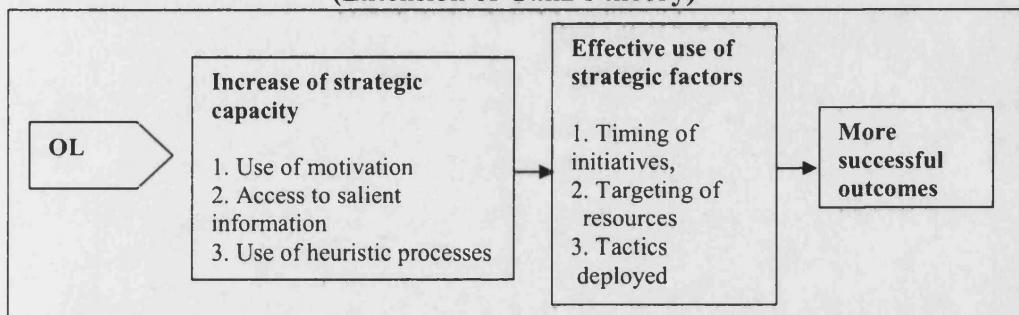
**<Figure 6-8> Mobilization model, utilizing OL**  
**(Extension of Tilly's model)**



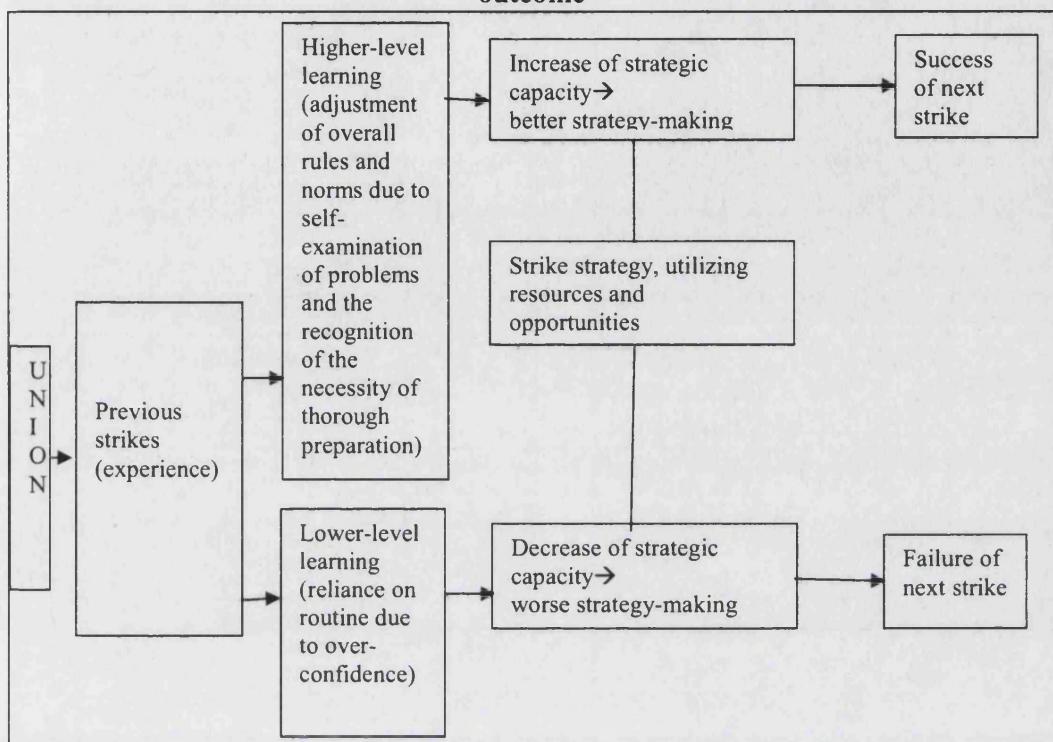
**Term definitions** (Tilly, 1978: 54-5):

- 1. Interest:** the shared advantages or disadvantages likely to accrue to the population in question as a consequence of various possible interactions with other populations.
- 2. Organization:** the extent of common identity and unifying structure among the individuals in the populations.
- 3. Resource mobilization:** the extent of resources under the collective control of the organization.
- 4. Opportunity:** The relationship between the population's interests and the current state of the world around it.
- 5. Mobilization** (or Collective action): the extent of an organization's joint action in pursuit of common ends.
- 6. OL:** the way that an organization learns lessons from the mistakes (or achievements) it (others) has made. OL occurs when errors are detected and corrected in ways that involve the modification of an organization's underlying norms, policies, and goals. (Argyris and Schön, 1978).

**<Figure 6-9> Relationship between OL and strategic capacity**  
**(Extension of Ganz's theory)**



**<Figure 6-10> Relationship between learning content, strategic capacity, and outcome**



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**<Table 6-1> Review of OL**

Concept	Content	References
Definition	<ol style="list-style-type: none"> <li>1. The way that organizations build, supplement, and organize knowledge and routines around their activities and within their cultures, and adapt and develop organizational efficiency by improving the use of their broad skills (or strategy).</li> <li>2. OL occurs when errors are detected and corrected in ways that involve the modification of an organization's underlying norms, policies, and goals.</li> </ol>	(Dodgson, 1993: 377)  (Argyris and Schön, 1978: 3)
Goal	1. Adaptation and improved efficiency in times of change	(Dodgson, 1993 : 378)
Process	<ol style="list-style-type: none"> <li>1. Intuition-interpreting-integrating (feed forward). Institutionalizing-intuiting (feed back).</li> <li>2. Information acquisition-distribution-interpretation-organizational memory (feed forward).</li> </ol>	(Crossan et al., 1999: 522)  (Huber, 1991: 90)
Levels	<ol style="list-style-type: none"> <li>1. Single-loop: error detection and collection process. Double-loop: questioning and modification of existing norms, procedures, policies, and objectives. Deutero-learning: learning how to carry out single- and double-loop learning. It involves changing the organization's knowledge-base or firm-specific competences or routines.</li> <li>2. Lower-level learning: repetition of routine within a given organizational structure, or a given set of rule. Higher-level learning: adjusting overall rules and norms.</li> </ol>	(Argyris and Schön, 1978: 3)  (Fiol and Lyles, 1985: 807)
Contextual factors	<ol style="list-style-type: none"> <li>1. Organizational culture: shared beliefs, ideologies, and norms to influence organizational action-taking.</li> <li>2. Strategy: determine goals, objectives, and breadth of actions available for carrying out strategy.</li> <li>3. Structure: the degree of flexibility depends on organizational structure (centralized or decentralized).</li> <li>4. Environment: learning depends on both change and stability between learner and environment.</li> </ol>	(Fiol and Lyles, 1985: 807)
Inhibitors	<ol style="list-style-type: none"> <li>1. Primary inhibitory learning loops: self-reinforcing cycles which reinforce those errors. Secondary inhibitory loops: group and inter-group dynamics which enforce conditions for error (ambiguity, vagueness, etc).</li> <li>2. Defensive routines (department structures, bureaucratization).</li> <li>3. Successive successes and obstacles of unlearning.</li> </ol>	(Argyris and Schön, 1978: 5)  (Morgan, 1997: 88-9)
Facilitators	<ol style="list-style-type: none"> <li>1. Coordinated organization and strategy.</li> <li>2. Organizational structure allowing for deliberation, access to information, and accountability.</li> <li>3. Endowment of motives, development of formal R&amp;D structure, introduction of new technologies (for better communications, rapid delivery of information, and effective education), high level of trust in organizations, external challenges (or crises), and previous failures</li> </ol>	(Dodgson, 1993: 378)  (Ganz, 2000: 1016)

**<Table 6-2> Process of OL in Union**

Process	Interpretation	Integration	Institutionalization	Intuition
Definition	Explaining, through words and/or actions, of an insight or idea to one's self and to others.	Process of developing shared understanding among individuals and of taking coordinated action.	Process of embedding learning by individuals and groups into the organization.	Recognition of the pattern and/or possibilities inherent in a personal stream of experience.
Key requirements	Managing ambiguity and uncertainty in the adoption of language and the construction of cognitive maps.	Translating new ideas consistently to members in order to achieve collective action.	Overcoming the resistance to change of organization's members.	Developing organizational members with experience and identities that facilitate expert-level pattern recognition.
Examples	Conversation and dialogue (small group meetings, computer communication).	Agenda setting at formal meetings (representatives' meeting). Suggestions via union's homepage, phone, suggestion box, and meetings -New norms making	Establishment of information transfer system, physical layout of workplace, regular education courses or centres, Regular publications (e.g. newspapers). Computer communication networks.	Education. Reading union publications (e.g. newspapers). Participation in meetings or collective actions.
Associated form of power (Lawrence et al., 2005)	Influence	Force	Domination	Discipline

**<Table 6-3> Facilitators and inhibitors of learning in unions**

Facilitators	Inhibitors
<p>-Meaningfulness: Internal motives; leaders' sense of mission, sense of justice and solidarity. External motives: wage increases, employment security, improvement of working conditions and industrial democracy.</p> <p>-Organizational structure: deliberation, multiple constituencies (access to wide range of information), accountability.</p>	<p>-Reactive action repertoire (Drinkuth et al., 2001: 456): ideology of conflict, defensive routines, resistance to change</p> <p>-Ideological rigidity (Schein, 1997: 87)</p> <p>-Propensity of centralized decision-making (Fiol and Lyles, 1985)</p> <p>-Other: scarcity of full-time officers, frequent change of leadership, excessive competition between political factions</p>

# **CHAPTER 7. RELATIONSHIP BETWEEN ‘OL’ AND MOBILIZATION IN STRIKES**

## **7.1. Introduction**

This chapter looks at the relationship between OL and results of mobilization at four strikes held during the period of the Government’s restructuring of the banking sector following the 1997 national financial crisis. The unions gained successful outcomes from the strikes in July 2000 and June 2003, but failed to do so from the strikes of September 1998 and December 2000. This chapter looks at the reasons for these successes and failures through an analysis of the relationship between OL and mobilization.

To do this, this chapter analyzes the OL possessed by the unions before the strikes (based on Crossan et al.’s (1999) conception of the OL process), the effects of learning on strike strategies (utilizing Ganz’s (2000) strategic capacity perspective), the details of mobilization derived from those strategies (based on Tilly’s (1978) mobilization theory), and the outcomes of the strikes.

## **7.2. Strike in September 1998**

### **7.2.1. Organizational learning**

#### **7.2.1.1. Content of OL**

As there had been neither industry-wide nor individual bank strikes prior to 1998, bank unions could draw on no first-hand experiences from which they could have acquired learning about industry-wide strikes. However, bank unions had witnessed union strikes at other companies. Although it might be expected that they could have learned something indirectly from those other unions’ experiences of strikes it was clearly not sufficient to induce positive OL (thereby, leading poor strategic capacity). Consequently, the strike strategy was poor and so were the outcomes from the action.

### **7.2.1.2. Level and Process of OL**

Since the national financial crisis at the end of 1997, the bank unions had, via the OL processes of interpreting, integrating, institutionalizing, and intuition, acquired information regarding strike preparation indirectly (i.e. by learning from the experiences of other union strikes). However, the learning had been lower-level learning, such as the benefits of a reliance on routines within a given set of rules and norms, and a given organizational structure. Using the aforementioned steps, the details of the learning they had acquired were as follows.

#### **Interpretation**

With respect to interpretation, there were meetings and dialogues between rank-and-file members and union officials regarding the approaching restructuring at the National Office (NO), the branch office, and the sub-branches. One of the most important demands made by the IMF (when the Government required a bailout following the financial crisis) was the restructuring of the banking sector. Employees in the banking sector thus predicted the subsequent restructuring which would lead, as a result of mergers between banks, to mass redundancy. They also witnessed many strikes consequent upon bankruptcies and mass layoffs in other industries after the national financial crisis. They talked about such things as well as the coming restructuring of the banking sector. The unions thus searched about for response measures. Union newspapers and the media, and meetings between union officials and members (at branches and sub-branches) generally influenced a shared understanding (i.e. interpretation of the situation) between union officials and the rank-and-file members.

#### **Integration**

The rank-and-file and union officials tried to integrate the results of the interpretations of the aforementioned situations into the union organization through the National Congress (NC) and the Central Committee (CC), where discussions about possible response measures to the restructuring took place. At the NC on 10 July 1998, in response to the Government's announcement of a restructuring plan concerning insolvent banks, the unions decided to go on an industry-wide strike in order to protect their members' employment security. In addition, the representatives of bank unions decided to mandate all rights of strike to the KFFU at the NC. Later, at the CC, officials of the NO and the chiefs of bank unions discussed tactical issues.

## **Institutionalization**

As for the institutionalization, following the decision to go on strike, the NO formed a committee, the “Emergency Fighting Committee”, in order to prepare for the strike. The committee devised a strike strategy and phased fighting tactics<sup>91</sup>. These were needed in order to press the Government and to inspire members with a will to fight.

## **Intuiting**

To assist in the intuition, the union informed its members of its decisions and plans, news of other unions’ experiences, and updates on political developments via union newspapers and fax. The union also utilized branch meetings, sub-branch meetings, and education courses to provide information to the rank-and-file.

### **7.2.2. Mobilization**

The unions’ strategy was to prevent the mass redundancy through an industry-wide strike (because the Government had demanded the redundancy as a precondition for the input of public funds to nine insolvent banks). The unions therefore mobilized union members from those banks. The unions went on strike, hoping to change the Government’s demands by paralyzing bank business. However, the mobilization of just an inside resource (i.e. union members) was a poor strategy, and their unity was not strong as well.

As discussed in Section 5.3.1, the unions tried to maximize the mobilization of union members. They collected strike funds (£2,500,000) and held two big rallies before taking strike action. Their mobilization efforts were initially successful, as approximately 20,000 members (out of 36,569 in the nine banks) participated in the rally on the eve of the strike. However, just 7,000 members participated in the strike itself on the following day because of a failure to maintain solidarity between the unions. This was a consequence of a poor strategy that had not included preparation for predictable problems such as their weak unity and opponents’ counteractions.

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<sup>91</sup> Tactics included members’ voting for a strike, big membership rallies during August and September, the union President’s hunger strike beginning on 22 September, the holding of an emergency NC on 23 September to strengthen representatives’ determination, a big membership mobilization on the eve of the strike at the Myung Dong Cathedral to put more pressure on the Government before going on strike and to assemble members in a comfortable environment, and, then, finally, the strike itself on 29 September (Section. 5.3.1).

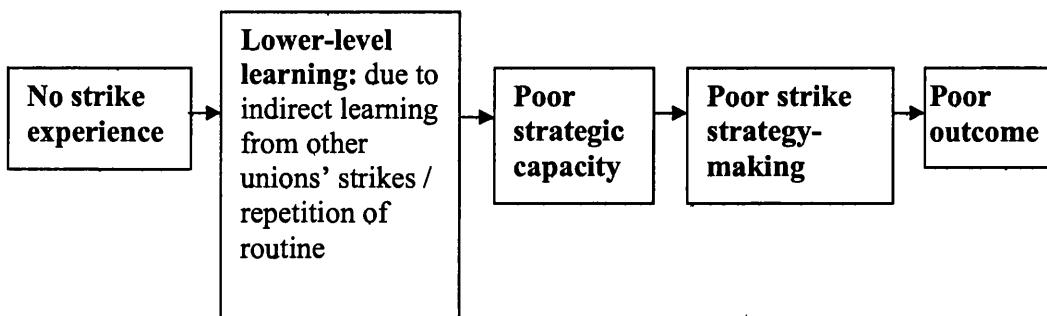
As a result, the unions attained unsatisfactory outcomes (Table 5-3). The poor strategy derived from the fact that the unions had no previous strikes from which to learn. Although they succeeded in mobilizing members on the eve of the strike they failed to maintain unity between the union leaders throughout its duration. In addition to the poor strategy, the union form (enterprise union), in which the union leader of each bank retained sovereignty, contributed to the unsuccessful result of strike.

Moreover, it was difficult for the unions to exploit any political opportunity because the public, aware of the national financial crisis, understood and supported the Government's restructuring plans. Consequently, union members in the banking sector felt defeated as they perceived that the strike had been a failure.

### 7.2.3. Conclusion

The unions had learnt about strikes by observing those by other unions. However, those were indirect experiences, which had led to lower-level learning (relying on given organizational structures and a given set of norms) about strikes. This led to their strike strategy being nothing but the mobilization of their members. As a result, the unions were unable to obtain a successful result from their action (Figure. 7-1). If unions had employed a better strategy, one that mobilized various resources and political opportunities, as well as strengthening unity between unions, better results may have ensued.

**<Figure 7-1> Relationship between learning and outcome of strike in September 1998**



## **7.3. Strike in July 2000**

### **7.3.1. Organizational learning**

#### **7.3.1.1. Content of OL**

By conducting a throughout evaluation of the reasons for the failure of the strike of September 1998 the unions were able to learn from it. The reasons were the loose unity derived from the enterprise union form and the inadequate preparation for the strike, articulated in the poor strategy (in which resource mobilization had comprised simply the mobilizing of union members, but not included preparation for opponents' counteractions). Thus, they recognized two needs, one for a change of union form to an industrial union to effect stronger unity, and the other for thorough preparation (and, therefore, a comprehensive strategy including the use of outside resources and use of political opportunities in order to prevail opponents), before embarking on the next strike. First, they chose more militant leaders at the next leadership election. Secondly, they transferred the union form from enterprise unions to an industrial union. Thirdly, they conducted joint collective bargaining and a signing campaign to take legal proceeding against the IMF in order to promote internal membership unity and external solidarity with civic groups. Fourthly, they developed a justification for strike action that could gain public support. Lastly, they devised a strategy that could successfully mobilize more resources and exploit political opportunities.

#### **7.3.1.2. Level and process of OL**

The experience of an unsuccessful strike in September 1998 provided the bank unions with the opportunity to implement the aforementioned higher-level learning (Table 7-1) that aims at adjusting overall norms and organizational structures (Fiol and Lyles, 1985). The learning was conducted according to Crossan et al.'s OL processes (i.e. interpreting, integrating, institutionalizing, and intuiting) which, it was felt, would improve the chances of success at the next strike. Briefly, these processes involve interpretation at the level of individuals or groups, to integration at the organization level, to institutionalization into the organization system, and, finally, to intuiting in individuals.

## Interpretation

As processes of interpretation, there were meetings and dialogues between the rank-and-file and union officials regarding the evaluation of the September 1998 strike at the NO, the branch office, and the sub-branches. Further interpretation took place through normal communication channels. Union members generally engage in dialogue with other members or union officers, attend small group meetings, and utilize computer communication systems for the creation and dissemination of information.

According to the 1998 activity report of the KFFU (KFIU, 1999), the union members evaluated the strike outcomes as follows: 1. the unity between bank unions was very weak due to their organizational form (i.e. they were enterprise unions). 2. The achievement of the strike, the CBA, was poor. Although the union was able to reduce the percentage of staff redundancies (from 40 percent to 32 percent) the members felt it was meaningless. 3. The weak unity and the poor result were derived from weak union leadership. Bearing these responses in mind, the union resolved to address the problems of weak unity and leadership.

However, the leaders of the KFFU, who had coordinated the strike action, believed that the strike had been a great victory. In a report presented to a meeting of the chiefs of bank unions held on 1 October 1998 the leaders observed:

The strike success contributed greatly to the recovery of bankers' spirit of self-respect. It is a vivid demonstration of how much power bankers generate once they are unified; we were able to prove our great influence to both those inside and outside the union. Thus, we increased greatly the status of our organization. The fact that we could go on an industry-wide strike is significant (the first in the history of the banking sector), and our evaluation is that the strike was a great victory; it was proven to be not only justified but also a success in terms of achievement. However, the one aspect to be regretted centred on the events of the closing stages of the strike; we did not handle this wisely. This is a good lesson to be remembered for future strikes (KFFU, 1999: 94).

Such an evaluation might be attributed to the tendency of leaders to overestimate the result of their actions. On the other hand, as one of the KFFU Presidential candidates argued at the NC in November 1998:

The great wave and battle cry of 30,000 colleagues that filled the plaza of Myung Dong Cathedral last September was our proud appearance that confronted the Government's impromptu restructuring. However, at the conclusion of the unsuccessful strike all that remained to us were just anguish and auto-destruction in spite of heartbreak fighting.

The reasons were, firstly, the KFFU had no leadership to lead members and individual unions. There should have been strong leadership. Instead, the KFFU was weakly led by them during the strike. Secondly, the movement ideology of the KFFU has been wrong. The federation had proceeded with a moderate negotiation method that was dependent on the Government and employers' paternalism. However, the real power of the labour movement is based on its strong solidarity (the unity between union officials and the rank-and-file) and fighting. Thirdly, the KFFU needs to strengthen the function of policy-making to respond to forthcoming challenges. Thus, we need to recruit more policy-making staff and to establish a labour policy-making research centre. Moreover, we have to strengthen our partnerships with professional labour policy institutes in order to improve our policy-making function. Fourthly, we have to extend the range of union movement activity. So far, the KFFU has been negligent of external activities, and, thus, it has been accused of being a selfish organization. Now, the federation has to emerge and become a big movement through solidarity with civic groups as well as other unions (having a propensity toward militancy). Lastly, we have to establish an industrial union in order to overcome enterprise unionism and to bring about a bigger unity (KFFU, 1999: 69).

His address struck a chord with the rank-and-file. The majority of representatives voted for him and he became the new President of the KFFU, winning 137 out of 236 votes (the incumbent President gained just 98 votes; one representative chose not to vote).

### **Integration**

The union members attempted to integrate the results of the evaluation of the strike into the union organization through the NC and the CC. At the meetings, representatives from branches requested the change of union form and a more thorough preparation for the next fight.

First, the representatives from bank unions changed the leadership of the KFFU (a federation of bank unions) to a more militant one at the NC in November 1998. The new leaders argued that the failure of the September strike was due to the limitations of the enterprise union system, and promised to change the union form from enterprise to an industrial union by 2000 (KFIU, 1999).

Secondly, at the NC in November 1998, the representatives approved the NO proposal to form a special committee to oversee the establishment of an industrial union.

Thirdly, at the CC in March 1999, the representatives agreed to the joint collective bargaining of wage in the 1999 fiscal year (FY) in order to promote stronger unity and to help establish the industrial union.

Fourthly, at the CC in April 1999, the representatives decided to take legal proceedings to claim for compensation against the IMF. They argued that the IMF caused mass bankruptcy and redundancy through forcing the Korean Government to adopt wrong policies (such as high interest and extreme retrenchment policies) as the conditions of receipt of IMF bail-out funds. The aim of the suit was to remove the pressure the IMF was exerting on the Korean Government to implement the second restructuring<sup>92</sup>; the union sought to expose the problems stemming from the IMF policies and restraints. The union also endeavoured to win the support of civic groups for its campaign, promoting the idea of solidarity with and among civic groups.

Fifthly, in February 2000, the NO proposed to the CC that a report which included plans for industrial action and an analysis of the political situation in 2000 be written. The report would also include predictions of the impact of the Government's second restructuring on the banking sector. The members of the CC agreed to the proposal.

Sixthly, at the NC in March 2000, the representatives decided to dismiss their enterprise unions, and establish an industrial union, the Korean Financial Industrial Union (KFIU). Lastly, at the CC of the KFIU on 9 June 2000, union officials decided to go on an industry-wide strike on 11 July in order to prevent the Government's implementation of its restructuring plan. This decision was precipitated by the Government's announcement (on 7 June 2000) that it was to establish a holding company in order to solve the insolvent bank problem.

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<sup>92</sup> The Government continued to consult with the IMF on the subject of policy as it propelled the restructuring of the banking sector. Thus, the union needed to restrict the IMF's push of restructuring. The union met lawyers in order to talk of the issue. The lawyers answered that a compensation suit against the IMF's policy failure would be possible. The union suggested the idea of a lawsuit to the CC; the CC agreed that the legal action should proceed. The lawsuit campaign was a movement that promoted public opinion against the IMF, informed both domestic and international audiences of the negative aspect of the IMF's policy. To effect this, the union instigated a public petition and sought solidarity with international non-government organizations at an international NGO conference, the "DaeGu Round", held at DaeGu City, in Korea, in August 1999.

## **Institutionalization**

Learning was institutionalized, first, in response to the representatives' demand for stronger leadership; there was a reshuffling of union officials following the election of new leaders at the NO. In addition, two more officials (research and publicity professionals) were recruited to aid the preparation of a more vigorous and powerful challenge in any future action

Secondly, the NO, following a decision made at the NC in November 1998, formed a special committee whose aim was to establish an industrial union. The committee held several workshops, prepared new rulebooks, and issued a declaration announcing the establishment of an industrial union. The committee also created a poster and an information pamphlet about the proposed industrial union, which were distributed to 6,000 sub-branches prior to the union's formal establishment in March 2000.

Thirdly, according to a joint collective bargaining decision made by the CC in March 1999, the NO negotiated (between May and July) an agreement to joint bargaining involving almost all of the retail banks (15 out of 17). It was the biggest such exercise in Korean banking history, and was made possible by strong leadership and strong unity between bank unions. Joint collective bargaining led to such successes as agreements on employment security and a limitation on the recruitment of irregular workers.

According to the KFIU (2000a):

The results of 1999 collective bargaining show that the union's strategy of bargaining extended to cover employment security and the participation in management after previously been confined mainly to wage increases and fringe benefits. It is a reflection of the fact that the bank unions recognized the necessity of new strategies, such as the strengthening of union unity and the necessity of participation in management, after the mass redundancies suffered in 1998.

Fourthly, following the decision at the CC in April 1999 to sue the IMF, the NO prepared a signing campaign to encourage people to support the suit. It progressed with the assistance of civic groups. The union also organized a rally to oppose the IMF's policies; approximately 20,000 people attended. More than 300,000 people signed the petition, and the union proceeded with the suit in a Korean court in July 1999. Through the signing campaign, the union was able to promote both members' unity and solidarity with civic groups as preparation for the union's next fight.

Fifthly, according to a decision concerning strike strategy made at the CC in February 2000, the NO formed a policy-making committee to develop a comprehensive logical case against the second restructuring and to prepare for a strike. The committee informed the rank-and-file of their decisions and actions via union newspapers and its homepage.

Sixthly, with the establishment of the KFIU at the NC in March 2000, the NO changed the system of organization from a federation of enterprise unions to an industrial union. As a consequence, the KFIU acquired authority over bargaining in the banking sector; this meant stronger unity among union members in the banking sector.

Lastly, following a decision (on 8 June 2000) at the CC to strike, the NO formed a committee, the "Emergency Measure Committees" in order to lead the strike effectively.

### **Intuiting**

There was a process of intuiting to rank and file members. This was achieved mainly via the KFIU's monthly newspaper, entitled "Financial Labour News", and the members-only sections of its homepage. The union also sent (at any time) newsflashes and statements to the chiefs of union sub-branches for circulation to members. Furthermore, the KFIU occasionally published books for the education of members; these were sent to the chiefs of sub-branches for display as well. Members were able to read these at any time they chose. In order to facilitate the intuition of new information by union members, unions generally utilized education courses, meetings, and participation in collective actions as well as newspapers.

### **Integration and institutionalization of the strike strategy**

To integrate and institutionalize the strike strategy, the NO distributed a report to the CC in February 2000. The report dealt with fighting direction and the political situation in 2000. It included material about the Government's second restructuring of the banking sector and the union's strategy to oppose it. The members of the CC agreed with its findings. The report observes.

The Government will propel the merger between banks from the latter part of 2000 through the privatization of banks owned by the Government if banks themselves do not proceed M&A actively. This is required because the foundation of the second restructuring is a bank large-sizing policy, necessary for the banks' global competitiveness. As a result of the M&As, employment security will become the biggest issue

once again. Thus, the target of the fight against the second restructuring will not be the employers, but the Government's policy. In order to change Government policy, the union has to stage a powerful industry-wide strike and to mobilize all kinds of resources and political opportunities in order to prevail. Rallies and general collective activities are not enough to change the Government's policy.

With respect to detailed fighting methods, first of all, the union needs to formulate a logical oppositional argument against the second restructuring and to disseminate it to the public and its rank-and-file. Secondly, the union has to actively exploit the period of the General Election in April, and make public its opposition to the second restructuring. Thirdly, the union has to utilize actively the period (April to June) of collective bargaining on FY 2000 wages to learn and prepare for the forthcoming fight. Fourthly, the union has to strengthen solidarity with civic groups, other unions, and political parties before commencing the industry-wide strike. Fifthly, the strike demands have to contain alternatives of sound nurture and development of the financial industry. Lastly, the best time to go on strike should be July. There are several reasons for this: 1. the union has to take advantage of the favourable political opportunity of the General Election during March and April. 2. The union has to utilize the period of collective bargaining as part of its preparation for the fight. 3. The union has to make its opposition to the second restructuring in the banking sector a main issue in the strike season (July) as the union attempts to keep pace with other unions also planning to strike in July (KFIU, 2001a).

The development of these new strategies was a result of the NO's strengthening of the function of policy-making (two new staff had been recruited and a policy-making committee had been established), in accordance with the new President's election promise. The new committee comprised staff from headquarters and branches. The members of the committee listened to other officials and the rank-and-file in the process of strategy-making. Thus, the union's strategy-making function was strengthened.

In accordance with a decision concerning fight direction made at the CC in February 2000, the NO created a committee detailed to oversee the opposition action against the second restructuring. The committee devised logically rigorous arguments against the restructuring, and informed the rank-and-file of these via union newspapers and the union homepage. The details of their argument were as follows:

First, the fundamental reasons for the current problems in the banking sector stemmed from the Government's unreasonable involvement practices in the sector and the links between politicians and enterprises. Examples were the immoderate support of Cheabols (conglomerates) and the Government policy of stock (security) market nurture through banks. Secondly, the IMF's policies for Korea had only worsened the situation within the banking sector. The IMF had misinterpreted the reasons for the Korean financial crisis, identifying it as a total credit crisis, when in

fact it was just a temporary crisis of dollar liquidity. The IMF demanded retrenchments by way of a high interest policy. This resulted in unnecessary mass bankruptcies of enterprises and worsened the financial condition of the banking sector.

Thirdly, the bank large-sizing policy by merger or the establishment of a financial holding company and privatization will create the following problems: 1. The sovereignty of the financial market will transfer to foreign investors as domestic enterprises do not have enough money to buy the banks and, furthermore, are subject to bank law regulations when buying banks' shares (i.e. a domestic investor is not allowed to own more than five percent of a bank's shares). 2. Mergers between banks cannot produce a synergy effect because there are no differences between banks (e.g. types of customers or market areas). 3. Due to unnecessary mergers, there will be, once again, mass redundancies. The prevention of unemployment is one of the Government's chief responsibilities.

Lastly, as an alternative, for the sound development of the banking sector and enterprises, the Government should transfer the direction of the restructuring of the sector from the Anglo-Saxon model (a stock market-centred system) to the German model (a bank-centred system). The stock market-centred system induces endless immoderate restructuring of enterprises in order to pursue short-term profit for shareholders instead of the long-term sound development of enterprises. As a result, mass redundancy and social bipolarization occur. In addition, the stock market-centred system causes, eventually, the loss of sovereignty of the financial market, with foreign investors becoming the main beneficiaries. On the other hand, the bank-centred system is better for the development of the banking sector and enterprises for several reasons. These include: 1. Due to co-ownership between a bank and an enterprise, management can operate the enterprise with a long-term perspective and the bank can lead restructuring in case of the enterprise's management crisis. Thus, the bank can prevent the unnecessary bankruptcy of an enterprise. 2. Due to a co-determination system between labour and management, the enterprise can proceed with restructuring without unnecessary conflicts. 3. Consequently, the country can retain sovereignty of its financial market during the period of restructuring and prevent another national financial crisis caused by the sudden outflow of foreign capital (KFIU, 2000b, c and 2001a, b).

The NO also utilized the period of the General Election in April and the period (April to June) of collective bargaining to inform the public of the union's opposition to the restructuring and to prepare for a strike. The NO produced a pamphlet containing the union's argument against the restructuring and distributed it to the people on the street and at canvassing venues. The NO informed and educated the rank-and-file regarding the necessity of the strike through rallies and union newspapers.

As the CC, on 9 June 2000, decided to go on an industry-wide strike on 11 July, the NO created a committee of emergency measures which would lead the strike. The committee had four broad responsibilities, one concerned with policy-making and

analysis of the political situation, another to do with mobilization and external cooperation, a third to deal with public information and management of the media, and a fourth to handle general affairs and support for the action. The members of the committee responsible for policy-making and analysis of the political situation played a role in developing an effective strike strategy based on an understanding of the political context at that time. Those concerned with mobilization and external cooperation mobilized internal and external resources and endeavoured to maximize political opportunities. Those dealing with public information and management of the media produced union newspapers dedicated to the strike and distributed these to members. They also attempted, through meetings with journalists, to win public support via positive reports in the media. Those dealing with general affairs and fight support prepare materials and provided general assistance to other teams.

A chief of the department of policy-making in the NO remarks on the strategy-making process:

After the experience of the 1998 strike, we felt keenly the necessity of strengthening the unity between and inside unions in the KFFU as well as establishing solidarity with outside organizations. Thus, we concentrated our efforts on such activities as multi-employer negotiations of FY 1999 wages (to strengthen the unity of bank unions) and, with other civic groups, a lawsuit against the IMF to promote solidarity with them.

However, these activities were not enough to overcome bank workers' (habituated) fragmented consciousness. We were also aware of the increasing possibility that they would react opportunistically as crises recurred due to endless restructuring. Accordingly, a systematic and lasting process of education and publicity to members was required. In addition, we recognized that workers would become even more fragmented if we could not change the Government's direction on restructuring. Thus, we had to prepare a fight on the basis of opposition to the Government's neo-liberal restructuring policy of labour and the financial sector.

We thought it was impossible to change the Government's policies simply through rallies or collective actions. So, we decided that we should instigate a bigger, general action, mobilizing all resources, against the Government.

We focused on strengthening our publicity, aimed at both the public and our members, emphasizing the necessity of opposition to the restructuring of the financial sector, and the need for a five-day working week to be introduced (in order to achieve another aim, that of sharing jobs), during the period of the General Election in April 1999. In addition, we strengthened the basis for a general strike through multi-employers bargaining and preparation for the establishment of an industrial union.

In addition, during the General Election campaign, we undertook activities that strengthened solidarity with civic groups and opposition

parties who were also opposed to the Government's neo-liberal restructuring. We also did our best (with the assistance of academics) to develop alternative policies regarding the cultivation of a sound financial sector. In the fight, the KFFU had to play a leadership role. So, we firstly wrote drafts of our strike strategy and policies in order to assist union officers in making decisions. Next, we provided drafts of plans to the CC and the NC, and representatives discussed these and then made decisions. After that, we informed the rank-and-file of our plans through union newspapers and other educational materials in order to encourage their participation in the fight. The policy-making department produced material containing policies and strategies, and organized conferences and seminars in order to collect opinions. The publicity and education department published materials (including newspapers) and distributed those to members; they also organized education courses. Leaflets containing questions and answers were very useful for the rank-and-file wishing to understand difficult policy alternatives and justifications for the fight.

To sum up, we fixed the direction of the fight at the first stage, and then made thorough preparations for the strike. Thus, we were able to devise an effective strategy, leading to successful outcomes. This we were able to do by a serious and thorough reflection on the failure of the previous strike, in September 1998 (Interview by the author, November 2005).

#### **7.3.1.3. Facilitators of OL**

There were facilitators of OL in the unions at this time. In general, facilitators of learning include external challenges (or crises), previous experiences of failure, internal and external motives of union members, and organizational structures which foster deliberation, accountability and resource flow. Thus, in this case, facilitators included the failure of the previous strike (which increased the unions' determination to prepare more thoroughly for the next strike), the impending second restructuring of the sector by the Government, an especially strong motivation to adapt to challenges posed by changes in the external environment, the worry of additional redundancies, and the ability to access a wider variety of information derived from the fact of the union being an industry-wide organization.

#### **7.3.2. Strategy**

##### **7.3.2.1. Content of strategy**

The union's strike strategy was to prevent in advance the Government's second restructuring of the banking sector. The union identified the restructuring as an injustice, and sought to vigorously mobilize resources and exploit opportunities. The content of the strategy was as follows: first, it was to claim justifications for the strike against the

Government's second restructuring on the basis that labour was once again going to suffer because of the Government's failure to successfully restructure the sector in the first round, and that the main reason for the financial crisis was the Government's unreasonable involvement practices in financial institutions. Secondly, it was to require the eradication of the above mentioned involvement in financial institutions and the compensation of damages due to that involvement. Thirdly, it was to mobilize various resources from inside and outside the union, and to utilize political opportunities. Lastly, it was to paralyze bank business through strike action.

#### **7.3.2.2. Increase of strategic capacity**

As a result of reflection on the problems with the previous strike through the above OL processes, the union's strategic capacity regarding endowment of motives, use of information, and use of the heuristic process increased significantly in the next strike.

##### **Endowment of Motives**

The KFIU used a mixture of internal and external motives in order to maximize membership participation in the strike as well as the cooperation of non-member bank employees. The union told bank employees that the insolvency of the banks had been caused by the Government's involvement in bank business, stressing that the eradication of that involvement was bankers' mission for the times. This was an internal motive, aimed at encouraging membership participation. The union demanded that the Government compensate banks for the losses attributable to its involvement. Although such a demand was the responsibility of bank management, management dared not do it because their positions were under the direct influence of the Government. If the requirement (to compensate the banks) was accepted by the Government it would be a big help to the banks' financial situations. Thus, this demand that the Government accept its responsibilities became an external motive for all bank employees, including management. These justifiable requirements actually did succeed in persuading both employees to participate, and management to understand (and cooperate indirectly), in the strike action.

##### **Use of information**

Due to the support the union's justifiable requirements had won from both staff and management, it was able to access various and useful information resources from all constituents of the banking sector in developing its strategy.

### **Use of heuristic process**

In reflecting on the failure of the previous strike the union recognized the fact that to succeed they needed to utilize internal and external resources and political opportunities. Thus, although the KFIU endeavoured to use mostly inside resources, such as its members and non-union members, it also made use of external resources such as civic organizations in addition to enlisting the (political) support of, for instance, members of the main opposition party and the Tripartite Commission.

#### **7.3.2.3. Effective use of strategic factors**

Due to the aforementioned increase of strategic capacity, the union could more effectively employ the main factors of any strategy, such as timing of initiatives, targeting of resources, and deployment of tactics. First, the union began to mobilize resources and identify opportunities once it recognized that the Government would pursue the second restructuring of the banking sector. In other words, the union began its strike preparation by arguing against the second restructuring before the Government actually started the restructuring. It was thus an example of the interventionist approach mentioned at Section 1.2.2. Secondly, the union targeted various resources and opportunities when it went on strike in order to induce an agreement from the Government. Lastly, the union deployed various fighting tactics and methods in order to allow more members to easily participate in the action. For example, the union held several rallies and asked members to wear casual clothing to work prior to going on strike. The union also amassed a large strike fund in order to finance various actions and instil confidence in both union leaders and rank-and-file members. The union ordered members to submit a leave of absence form to their banks, thus releasing them from the burden of participation in an illegal strike. The union chose a university stadium located in the city centre as the strike venue; this was more accessible for most members, and allowed the union to control members more easily and to prevent them from leaving. As members were sitting down they were able to enjoy cultural events, and listen to, and talk with, leaders easily. Thus, the union promoted members' confidence in the strike.

### **7.3.3. Mobilization**

#### **7.3.3.1. Resource mobilization**

The union maximized internal and external resource mobilization. First, the union succeeded in inspiring 30,000 members (out of 65,000 from all banks) to attend a rally on the eve of the strike. Of these, approximately 20,000 participated in the strike on the following day. Secondly, the union utilized actively outside resources such as civic groups, the national centre of unions (FKTU), and the Tripartite Commission in order to induce the Government to the negotiation table.

#### **7.3.3.2. Use of political opportunity**

The union succeeded in exploiting political opportunities by asking opposition MPs to delay the FHC legislation, and to highlight both the failure of the Government's first restructuring and the problems resulting from the Government's unreasonable involvement in financial institutions. Thus, the union was able to win the public's support for the fight and produce a successful agreement with the Government.

#### **7.3.3.3. Use of various collective actions**

The union deployed various collective activities such as big rallies, union leaders shaving their heads, the wearing of casual clothing to work, the collection of strike funds (£5,000,000), and submission of leave of absence applications in order to encourage more members to participate in the strike. Such actions assisted the union in staging powerful strike action that lasted for 12 hours and caused partial business paralysis at almost all banks.

#### **7.3.3.4. Outcome**

The outcome of the strike (a successful agreement) was a great victory for the union. Because the union achieved a positive learning outcome from the failure of the strike in September 1998 through OL processes it was able to improve its strategic capacity, thereby devising an effective strategy for the next strike. The improved strategic capacity contributed to success in a number of ways, including the timing of the initiative, the targeting of resources, and the deploying of tactics. Thus, the union could mobilize the maximum amount of resources from inside and outside, utilize political opportunities, and deploy various collective actions. As a result, the union was able to secure a great victory.

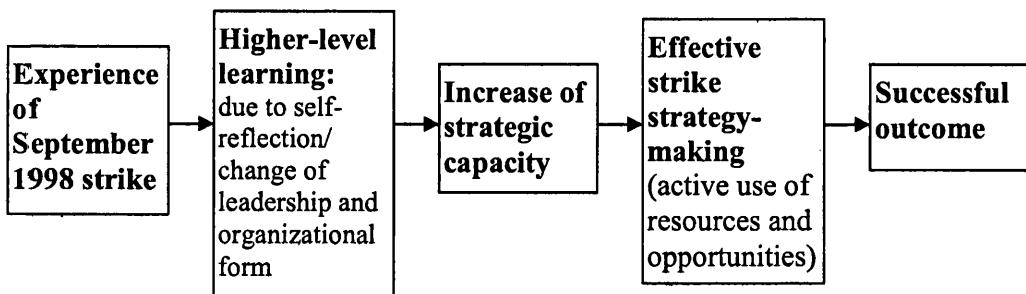
#### 7.3.4. Conclusion

Due to the experience of an unsuccessful strike in 1998, the unions were able to learn much (i.e. conduct higher-level learning) (Table 7-1) through processes of interpretation, integration, institutionalization, and intuition prior to the following strike. The process of OL generally proceeded from interpretation by members, to integration by the NC (or the CC), to institutionalization by the NO, then to intuition by members. In addition, the NO played a leading role in the actual making of the strike strategy on the base of the OL. The NO suggested a plan regarding the development of a strike strategy to the NC which required the establishment of a committee to develop strategy and tactics, and then to execute them. What the union had chiefly learned was that victory without optimal mobilization of external resources and exploitation of political opportunities as well as strong unity between workers within banking sector was unlikely. Therefore, the unions established an industrial union in order to promote stronger unity, to aid in maximum mobilization of internal and external resources, and to assist in identifying and using possible political opportunities and collective actions. As a result, the unions won a historic victory in the July strike (Figure. 7-2).

There had also been significant organizational changes in union structure within the banking sector. First, the KFIU had been established, meaning that there had been a transformation of union form from enterprise unions to industrial union. The KFIU leaders, unlike earlier bank union leaders, were militant, not moderate. The union had also strengthened its policy-making department. In all, the restructuring in the union system had the potential to contribute substantially to labour movement revitalization in the financial sector (Behrens et al., 2004a: 119). As result, the KFIU could increase its political and bargaining power and institutional vitality in the endlessly changing environment (Behrens et al., 2004b: 21).

Scholars of union revitalization argue that organizational change in unions is possible when resistance to such change is neutralized; for example, where there is a sufficient level of environmental pressure to start the process, and when unions articulate a conception of their future which might be formally codified as a mission (or vision) that provides a basis for strategic priorities (Behrens et al., 2004a: 118).

<Figure 7-2> Relationship between learning and outcome of strike in July 2000



## 7.4. Strike in December 2000

### 7.4.1. Organizational learning

#### 7.4.1.1. Content of OL

There was negative learning from the success of the strike in July 2000, in the dual sense that over-confidence grew and the union failed to adequately prepare for any future challenge. The KFIU had had a great victory in the strike in July 2000. It demonstrated a power of mobilization to both its members and the Government, achieving a successful agreement with the latter. The morale of members was lifted greatly, but the union was intoxicated by the victory. Thus, they were negligent in reflecting on, and analyzing problems associated with, the strike, steps that would have allowed them to predict and prepare for the future (specifically, the Government's second restructuring of the banking sector) (See Section 5.4.3.).

#### 7.4.1.2. Level and process of OL

There was lower-level learning (e.g. reliance on routine) in the union after the strike in July 2000. After the strike ended, the union had an evaluation meeting. However, the evaluation mainly focused on good things (e.g. the well-targeted strategy and the strike's outcomes). Although problems, such as the secession by some members in the middle of the strike and the decision by several branches not to participate, were mentioned at the meeting, the union did not actively seek feedback from the rank-and-file or try to correct any problems before a new challenge appeared. Thus, there was no process of high-level OL in the union after the previous strike. That is, although the

union recognized problems that had to be corrected it failed to address them. In short, the union could not gain higher-level learning from the previous strike because of the over-confidence it felt after its great victory.

To sum up, before the union went on strike in December 2000, there was a process of interpretation of problems highlighted from the previous strike, but no processes of integration and interpretation in response to these problems as follows. Therefore, the union suffered defeat in the strike.

### **Interpretation**

At the CC meeting in July 2000 (held shortly after the strike of that month), the representatives evaluated the results of the July strike as a big victory. Their comments were as follows:

The strike was a political one that required a change of restructuring policies in a financial sector oriented by neo-liberal policies. The strike allowed the rank-and-file to overcome the defeatism left over from the September 1998 strike. It therefore increased their confidence in strike action. As the strike demands extended beyond employment security to persuading the Government to change its policies the strike raised members' consciousness of the significance of the fight. The strike promoted the status of the KFIU as it showed that the union had the ability to make alternative policies (the union suggested restructuring the sector on the German, instead of the Anglo-Saxon, model). It was a strike that gained the peoples' support through various publicity activities. The Korea Economy Daily reported the results of a poll which showed that the majority of people supported the reason for the strike action (i.e. the failure of the Government's policies). On the other hand, the strike revealed once again the limits of union unity as members of two union branches left in the middle of the strike (Section 5.3.2.2). It meant that the union had not overcome the factionalism due to differences in interest (i.e. healthy banks were less committed to the strike than unhealthy banks)<sup>93</sup>. The strike proved that it was a matter of urgent necessity that irregular employees also be organized; as it was they who were asked to take strikers' jobs during the strike (KFIU, 2001a, b).

The above comments reveal that the representatives overemphasized the positive effects of the strike rather than sufficiently addressing the problems. Instead of overemphasizing the positive effects, the representatives should have taken special measures to solve the problems urgently at the CC.

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<sup>93</sup> This subsequently became a reason for the failure of the strike in December 2000. Conversely, when healthy banks went on strike unhealthy banks did not help them. The healthy banks are ones whose CAR is over 8 percent, according to the BIS standard.

## **Integration and institutionalization**

Despite the above problems revealed by the strike in July 2000, the union did not engage in the processes of integration or institutionalization to solve the problems before going on the next strike in December 2000. That is, the union failed to review or act upon the problems until the Government revealed the merger plan of KMB/HB in November 2000.

After the strike finished in July 2000, the union spent time (from August to November) to have summer vacation and to execute normal union business, such as participation in, and support of, branch events, finishing of bargaining for the FY 2000 wage levels, and participation in other labour-related events. In addition, the union established a committee to deal with measures involving insolvent banks during the period. In other words, the union was absorbed in the repetition of routines, thereby staying in lower-level learning. However, the union should have endeavoured to urgently address the serious problems (i.e. the divisions between branches of healthy banks and branches of unhealthy banks resulting from differences of interests regarding restructuring, and the organization of irregular employees) revealed at the July strike and to predict (or prepare for) possible new challenges from the Government.

### **7.4.1.3. Inhibitors of OL**

Looking at the background of the failure of the strike, it is possible to identify inhibitors (or barriers) to OL such as interruptions of learning processes, psychological barriers, and organizational structures, each stemming from the July 2000 strike victory. First, there were interruptions to learning processes. These were: 1. there was an interruption of the learning cycle between leaders and the rank-and-file. March and Olsen (1976: 159) call this barrier 'audience learning' to highlight the idea that the link between individual action and organizational action is interrupted. This type of incomplete learning cycle is to be found when individuals change their own behaviour but cannot persuade others to change the organizational rules for behaviour. 2. There was superstitious learning. This type of interruption occurs when organizational members draw incorrect conclusions about the impact of organizational actions on the environment. 3. There was ambiguous learning, which occurs when changes in the environment cannot be clearly identified (March and Olsen, 1976: 156).

These interruptions to learning between the leaders of the KFIU and the members of the KMBU and the HBU happened just before the strike commenced on 22 December 2000. The leaders of the KFIU could not persuade the members of the KMBU and the HBU to the postponement of the strike according to the provisional agreement. However, the members believed they would gain their demands within two to three days if they went on strike. This misapprehension occurred because they could not identify clearly the change of environment, and therefore drew incorrect conclusions.

Secondly, there was a psychological barrier derived from previous strike victory. Success can become a barrier to OL because it leads to managerial overconfidence in the ability to foresee risks. On the other hand, crises are deemed necessary to shake an organization out of its complacency (Sitkin, 1992: 243). Nevertheless, learning is also seen to require positive feedback from successful experiences. Berthoin et al. (2001: 867) argue that success blocks learning when existing competences are mined, sometimes without due thought, for new ideas. Organizations can get caught in a failure trap when one idea after another is tried out and then abandoned before enough experience has been accumulated for it to be used successfully. Sull (1999: 42) observed that when long-successful companies start to experience failure, they tend to engage in flurries of activity rather than question the assumptions underlying their organizational strategy, processes, and practices. These actions tend to aggravate the problem and multiply failures, because they are not based on a revised understanding of the market. The tension between the characterization of success as a barrier to learning and failure as a trigger of learning is heightened in the literature by the observation that organizations suffer from the tendency to oversample successes and undersample failures. In other word, more attention is paid to successes than to failures, suggesting that the ability of the organization to learn is not just a matter of the number of successes or failures that have been experienced but also of the ways in which they are perceived, interpreted, and remembered (Berthoin et al., 2001: 868).

Lastly, there were barriers created by organizational structures and leadership. Although the KFIU was an industrial union, the KMBU/HBU maintained significantly the inertia of enterprise unions. Therefore, the influence of the KFIU on them was limited. The leaders of the KFIU could not persuade members of the KMBU/HBU because the provisional agreement focused on regional banks, and contained nothing on the KMBU/HBU. This was an example of the structural barrier mentioned by Morgan

(1997: 88-9), who pointed out that departmental structure can inhibit OL by focusing the attention of members on parochial rather than organization-wide problems. In addition, it could be said that the structural barriers were a consequence of a lack of good leadership. According to Schein (1985: 317), such a lack of leadership is an impediment to OL. In other words, learning is impeded when there are neither enough leaders nor leadership behaviour conducive to learning.

#### **7.4.2. Strategy**

##### **7.4.2.1. Content of strategy**

The union could not prepare a complete strike strategy in advance because the situation which gave rise to the strike – the merger of two banks – had not been anticipated. Furthermore, the union decided to strike in order to prevent the merger at the earliest stage. The period between the appearance of the issue (i.e. the announcement of the merger) and going on strike was just 25 days. In addition, the union connected the solution of problems of other insolvent banks to the merger issue at KMB/HB. This was an awkward conjunction, and the union was unable to coordinate a coherent strategy or, later, a complete solution (a bargaining agreement) that could satisfy all branches. Ultimately, the union's strike strategy was simply to mobilize members; by so doing, it aimed to paralyze bank business. Despite successful mobilization of members at KMB/HB, the absence of a comprehensive strategy meant that failure was inevitable.

##### **7.4.2.2. Decrease of strategic capacity**

Due to over-confidence and indolence derived from the success of the previous strike, the union's strategic capacity regarding endowment of motives, use of information, and use of heuristic process decreased significantly in the case of the December 2000 strike.

##### **Endowment of motives**

The union confined itself to just motivating its members. It did so by telling them that the merger would lead to at least 30 percent of the staff being made redundant, an allegation that had not been confirmed. Thus, the maintaining of job security became the external motive for membership participation in the strike. In addition, the union contended that a merger between healthy banks would not produce a synergy effect and that the Government's bank large-sizing policy was an unnecessary one. That is, the union emphasized that the pursuit of an unnecessary merger was an injustice and that it

was in breach of the July Agreement. This argument was considered an internal motive to KMB/HB employees (union and non-union members).

However, the management of both banks counter-argued that the merger would not lead to compulsory redundancies because the merged bank would need more personnel and that the merger was being pursued not because of financial problems but because of the strengthening of global competition. The Government also argued for the necessity of a bank large-sizing policy for the promotion of global competitiveness. Furthermore, they argued that the merger was being pursued by big shareholders, rather than the Government. These counter-arguments were persuasive to the public, who lent their support to the merger. Thus, unlike in July 2000, the union's motives could not inspire either outside resources or cooperation from management of either bank.

#### **Use of information**

The union failed to use an appropriate variety of information sources, chiefly because the situation progressed very rapidly and the CEOs of both banks so actively pursued the merger. In addition, the union could not devise a proper strike strategy in advance because it had to simultaneously deal with issues concerning other insolvent banks.

#### **Use of heuristic process**

The union could not use know-how from previous strike experiences because of a mismatch between the union's strategy and the members' demands. It was therefore unable to persuade members of the KMBU/HBU of the merits of the provisional agreement. These members urged strike action even though a comprehensive strategy had not been developed.

#### **7.4.2.3. Ineffective use of strategic factors**

Due to the decrease of strategic capacity identified in the preceding paragraphs, the union could not effectively use the main elements of a strategy (timing of initiative, targeting of resources, and devising of appropriate tactics). First, the union began to mobilize its members only after it became aware that the Government and management would pursue a merger between KMB and HB. This was too late. In other words, the union failed to predict new challenges and prepare for proper strategy in advance. Secondly, the union could target only those members employed by the affected banks as union members in other banks did not support the strike. Lastly, the union had no choice

but to just conduct a sit-in strike in the FEC until opponents surrendered. This, however, was a kind of defensive tactic. In addition, the strike venue, the FEC, was located in a regional area, which isolated strikers from their comrades and the public, and discouraged some potential participants. As a result, strikers could not take more aggressive actions, and their efforts became weaker and less effectual as the strike progressed. Furthermore, opponents were much stronger.

#### **7.4.3. Mobilization**

##### **7.4.3.1. Resource mobilization**

The union could mobilize union members from just the KMBU/HBU branches for the strike. About 13,000 members (of a total of 26,618 employees of KMB/HB; in other words, approximately 50 percent of the staff) participated in the strike. Although the union sought support from other union branches near the end of the strike it was unsuccessful because union members at other banks did not wish to actively support the action (Section 5.4.2.2).

##### **7.4.3.2. Use of political opportunity**

The union could find no political opportunity to exploit because the situation progressed so rapidly, and the union was in breach of a provisional agreement it had made with the Government before going on strike.

##### **7.4.3.3. Use of various collective actions**

In spite of the rapid development of the situation, the union tried to deploy various collective actions, such as the wearing of casual clothing, rallies, and the collection of strike funds (£650,000, i.e. £50 per member). These actions were very poor compared with those taken before and during the July strike. Nonetheless, the strike was the strongest and longest-lasting in bank union history, lasting for eight days, from 22 to 29 December.

##### **7.4.3.4. Outcome**

The result of the strike was a defeat for the union in that no agreement was signed. By not learning as an organization from the July 2000 strike the union had a decreased strategic capacity for the next strike. This decreased strategic capacity meant that the union did not time its initiative well, did not target resources effectively, and did not

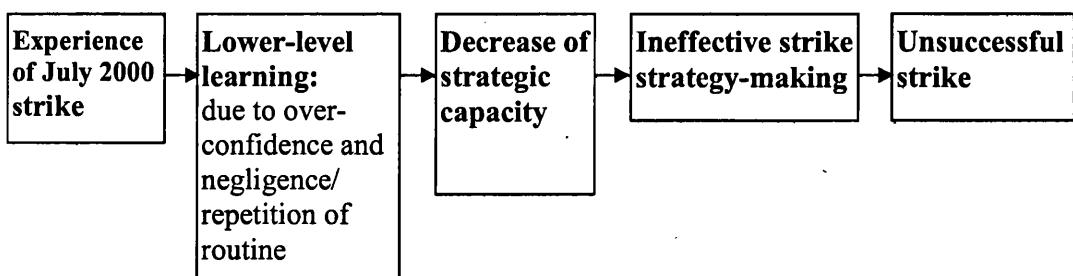
deploy the most appropriate tactics. Thus, the union could not induce maximum resource mobilization from inside and outside, utilize actively political opportunities, and deploy various collective actions. The inevitable consequence was an unsuccessful strike.

#### 7.4.4. Conclusion

The union's failure of OL from previous strikes was due to its being intoxicated by the success of the July strike, and thus being negligent in its preparation for the next challenge. Therefore, the union failed to predict the coming challenges<sup>94</sup>, one of which was the change of the Government's tactics to pursue a bank large-sizing policy by merging healthy banks. The KFIU had not prepared response measures to such mergers; rather, its priority had been to prepare a response to the restructuring of unhealthy banks. Furthermore, the Government's attack was so quick that the union was unable to respond effectively. In addition, the failure of unity promotion between union branches (of healthy banks and unhealthy banks) meant that the strike of the KMBU/HBU was perceived to be of little relevance to members of other union branches.

As a consequence, the union again tasted defeat. This setback flowed from no integration and no institutionalization with respect to the solution of problems revealed at the previous strike (Figure 7-3).

**<Figure 7-3> Relationship between learning and outcome of strike in December 2000**



<sup>94</sup> The challenges included the need to persuade members of the KMBU/HBU to accept the provisional agreement and the Government's strong determination to proceed with the KMB/HB merger.

## **7.5 Strike in June 2003**

### **7.5.1. Organizational learning**

#### **7.5.1.1. Content of OL**

The union was able to prepare thoroughly for this strike by calling on the higher-level learning it had accumulated from the strike failure at KMB/HB in December 2000 and the success of the industry-wide strike in July 2000. Therefore, the union could undertake a complete preparation, based on self-restraint, against the latest challenge. The union first evaluated the reasons for the failure of the strike at KMB/HB. The principal reason had been a poor strategy based on an over-confidence derived from the July 2000 victory. Secondly, the union learnt from that latter success, realizing that a strike would succeed if it could maximize resources mobilization from inside and outside, could use available political opportunities, and could utilize various collective actions flexibly, depending on the situation.

Thus, the union firstly did its best to strengthen the system of industrial unionism through successful industrial collective bargaining (multi-employer bargaining). Secondly, it established the Committee of Unification (CU), the Committee of Social Welfare (CSW), and the Committee of Politics (CP) in order to maximize the use of political opportunities and external resources in case of need. Thirdly, it formed the Emergency Measure Committee to develop a strike strategy at CHB, incorporating the development of a justification and the mobilization of resources and opportunities. The result would be a complete and flexible mobilization, thereby maximizing chances of victory.

#### **7.5.1.2. Level and process of OL**

Through both the failure of the December 2000 strike and the success of the July 2000 strike, the KFIU obtained once again the higher-level learning above mentioned (Table 7-2) which helped it to succeed in its next strike. The higher-level learning progressed through four processes (e.g. interpreting, integrating, institutionalizing, and intuiting) identified by Crossan et al. (1999). The higher-level learning occurred through the use of heuristics and strategy development.

## **Interpretation**

There was, firstly, interpretation (or evaluation) of the December 2000 strike from the rank-and-file and union officers at the branches and the NO. This interpretation was undertaken in meetings and through dialogue (face-to-face, at small meetings, and via computer networks) similar to that described in Section 7.3.1.2.

The principal content of the evaluation was: 1. the union did not have a comprehensive strategy that would lead to success due to an over-confidence derived from the success of the July strike. 2. The unity between branches was poor although the strike was an industry-wide action. This was due to an inadequate industrial union system; the union needed to strengthen that system and improve its strategy for the mobilization of resources (internal and external) and political opportunity if it were to succeed in future strikes.

First, at an evaluation meeting of the strike that the KFIU organized in 2001 (KFIU, 2001a), an official of the KMBU stated:

We thought that the Government would surrender within one or two days of the strike's commencement. However, we were wrong. We were not well enough prepared, owing to the over-confidence gained by the victory in the July strike. So, we could not help failing because of a lack of preparation. There was no leadership of the KFIU during the strike. There was no democratic decision process concerning the strike's eventual resolution.

Another official of KMBU argued:

I think there was an invisible achievement although we had no visible outcome. We showed labour's resistance to the Government and promoted members' fight consciousness.

An official of the KFIU observed:

The preparation period for the strike was too short. Different organizations had different reasons for fighting, depending on whether they were healthy or insolvent banks. We failed to win public support or convince other banks to strike in support.

An official of Pyung Hya Bank Union branch commented:

I think that the four insolvent banks received benefits thanks to the strike by the KMBU and the HBU."

An official of Han Bit Bank Union branch noted:

The failure of the strike frustrated other banks. The strike was a complete failure.

An official of Seoul Bank Union Branch claimed:

The strike, although an industry-wide action, was mobilized through promoting enterprise-level consciousness yet the goals of each bank were different. The KFIU could not cope with the situation. Such a strike would fail anytime.

Professor Chan Kyun, Lee, an advisor to the KFIU, commented:

There were no tactics and no strategy for the strike. The union did not assess the problems of the July strike because of an over-confidence engendered by that strike's overall success. Restructuring by the Government would carry on continuously because it remained government policy for an advanced financial industry. Unions could only learn if they comprehensively evaluated the strike.

Secondly, there were evaluation meetings at branches. For example, Kywang Ju Bank Union branch's appraisal of the strike was that:

It revealed the KFIU as a low-level industrial union. It was clearly a limitation that the President of the KFIU could not unify individual branches, and that it was the chiefs of those branches who still had the power to mobilize members at the enterprise level. Neither the chiefs nor the members had a great interest in the other bank unions. After the July strike, the union should have done a thorough appraisal of branches' participation in the strike, praising some, admonishing others. However, the appraisal that was undertaken was not as rigorous as it could have been, as everyone was intoxicated with the joy of victory. After the December strike, union leaders of those banks which had participated in the action were strongly criticized by their members. Challenging government policy is not easy, and the excessive sense of triumph following the July agreement blinded the union and its members to the difficult reality of engaging in another strike.

Nevertheless, the media's evaluation of the strike was that it had been half a success, half a failure (Han Kook Economy Daily, Han Gye Rae Daily, 23 December 2000). As far as the media was concerned:

The KFIU had demonstrated its power by being able to organize a week-long strike that had had a substantial commercial impact on the banks and, by extension, the economy. 2. The KFIU had been able to reveal that the Government was indeed behind the proposed merger, and evidence that the Government had breached the July agreement. 3. The KFIU had

prolonged the life of the four insolvent banks until at least June 2002 in its new agreement with the Government. On the negative side, the media concluded: 1. The KFIU had failed to stop the merger or sustain the strike until all its objectives had been met. This failure angered and frustrated some of its own members. 2. The level of distrust between branch unions was revealed and increased as the KFIU had failed to deal with the differences between them.

### **Integration**

In its response to the evaluation of the December 2000 strike, the union first took steps to integrate methods to strengthen the industrial union system through the NC and the CC. Branch representatives and union officials resolved, at the NC and the CC, that such a strengthening was a necessary step if victory was to be achieved at the next strike. For instance, at a meeting (on 5 January) of the chiefs of branches held after the strike, there was discussion on the measures to cope with the aftermath of the strike's failure (KFIU, 2001a). At the meeting, the chief of the union branch at Jae IL Bank commented that:

We need to reflect on ourselves and apologize to each other. And, we have to consolidate our organization quickly in order to recover to its pre-strike condition.

The chief of the union branch at Kyang Ju Bank suggested several measures:

In order to strengthen our union (KFIU), I would like suggest several things. First, we have to supplement full-time officers at headquarters. Second, we have to give stronger support to the leaders of the KFIU. Third, we have to recognize the necessity of solidarity with other labour organizations, including KCTU, and strengthen our ties with them. Lastly, we have to formulate a regulation concerning relief measures for members affected by union activities.

The chiefs of branches agreed with these suggestions (KFIU, 2001a, 2002a and 2003a). First, following a meeting at the CC in October 2001, the representatives decided formally to make a regulation defining the relief measure for members engaged in union activities in order to protect activists and promote their confidence.

Secondly, at the NC in December 2001, the representatives decided to change the election method for executives<sup>95</sup>, from an indirect election by representatives to a direct election by members. This was done to promote the rank-and-file's participation and to strengthen the leadership's authority.

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<sup>95</sup> The President, the first Vice-President, and the General Secretary of KFIU

Thirdly, at the NC in February 2002, the representatives decided to change the delivery method for the share of membership dues dedicated to headquarters, from delivery by branches to a check-off system. This change was required because several branches had sometimes delayed delivery, or failed to deliver, this part of the dues. The method of dues collection is related to the balance of power between headquarters and branches. By withholding delivery, branches were able to strengthen their bargaining position in discussions with headquarters. The representatives decided to increase, by stages, the share of the dues for headquarters from 10 percent, in 2003 to 25 percent, in 2006.

Fourthly, the NO proposed the establishment of a number of committees, the Committee of Unification (CU), the Committee of Social Welfare (CSW), and the Committee of Politics (CP), at the CC meeting in March 2002. These were to be set up in order to strengthen solidarity with civic groups and political parties. The CC agreed to the proposal.

Fifthly, the union tried to extend its potential to use political opportunities in the future. As a test case, the NO proposed, at the CC meeting in March 2002, that the union extend its political influence by participating in the Presidential election process. It could do this by supporting a pro-union candidate for the ruling party, Mr. Rho. The CC agreed to the proposal.

Sixthly, at the same CC meeting, the representatives decided to publish a union magazine for members. The magazine would include more detailed news collected from all branches. It was perceived that it would effectively enable the rank-and-file to obtain information about the union and all branches. It would also assist in the promotion of unity among members.

Seventhly, at the CC meeting in May 2002, the representatives decided upon the establishment of systems to send messages simultaneously to 5,000 chiefs of sub-branches by fax and to their mobile phones. The aim was to disseminate union news quickly and to mobilize them as soon as possible if necessary. Lastly, at the CC meeting in November 2002, the representatives decided that the organization of irregular employees was a high priority (approximately 30 percent of all staff was irregular employees). The union had hesitated to organize them because of the differences in their

interests; for example, the use of irregular employees can help the company to budget for a wage increase for regular employees, who are members of the union (this is possible because an irregular worker's wage is, generally speaking, only 50 percent of that of a regular worker). On the other hand, the increase of the ratio of irregular employees would, under the current system, hurt union power eventually because the density of union membership in the firm would decrease. The union recognized this fact, and noted that, to preserve union power, it should not hesitate in organizing irregular employees.

### **Institutionalization**

Learning and knowledge was further institutionalized in the strengthening of the industrial union by the NO. That is, the NO executed new rule-making, policy-making, the establishment of new systems, and the contracting of CBA according to decisions made at the NC and the CC (KFIU, 2001a, 2002a, 2003a, and 2004a).

First, the NO, acting on a decision made at the CC meeting in October 2001, wrote a regulation<sup>96</sup> defining relief measures for members suffering hardships as a consequence of union activities.

Secondly, the NO, following a decision made at the NC in December 2001, created a regulation, stating that executives would be directly elected by members. The first such election was held in 2002.

Thirdly, in accordance with a decision made at the NC meeting in February 2002, the NO instigated the check-off system for headquarters share of membership dues by making a CBA with employees.

Fourthly, following a decision made by the CC in March 2002, the NO established the CU, the CSW, and the CP. The purpose of the CU is to join with civic groups in activities that further the unification of the Korean peninsular. The union could build a close friendship with a lot of civic groups. The aims of the CSW are to pursue projects of social welfare, charity, and social service in order for the union to become more integrated with Korean society. The CP's aim is to instigate or become involved with

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<sup>96</sup> The main content of the regulation is to compensate members who suffer as a result of dismissal, reduction of salary, or bodily injury as a result of participation in union activities such as industrial actions.

activities that extend the union's political influence. The subsequent actions of the committees were as follows: 1. The CU first supported and participated in the 'People Unification Festival' that various civic groups organized and which opened at Mt. KumGang (North Korea) in May 2002. The committee also supported and joined in a 'People Unification Rally' in August 2002. 2. The CSW established a social welfare foundation and dispatched members to a rehabilitation facility to help disabled people in July 2002. It also sent 40 members to Kang Lyung City to help with the recovery activities following the typhoon of September 2002. 3. The CP's activities included support of pro-labour candidates, regardless of their political affiliation, at the regional elections in June 2002. The support took the forms of provision of election funds, the sending of union staff to assist the candidates, the advising of union members which candidates the union were supporting, and the provision of members' addresses to candidates. This was an example of the union attempting to extend its utilization of external resources and political opportunities.

Fifthly, again acting on a decision made by the CC in March 2002, the NO actively helped Mr Rho at the Primary Election of the ruling party. The NO explained this decision to its members in the following terms: 1. Mr Rho has acted for human rights and labour rights, and has even, during his career, been jailed because of his support for trade unions. 2. Mr Rho has informed the media of his pro-labour views, such as a preference for an EU-style social democracy, his opposition to privatization of key public industries, and his support of union participation in management. 3. His campaign promises include the repeal of the National Security Law<sup>97</sup> and the breakdown of regionalism. The NO therefore encouraged the rank-and-file to vote for Mr Rho at the primary election of the ruling party<sup>98</sup>. The union's decision to support him was reported widely in the media. This support was one of the factors that led to Mr Rho being chosen as the ruling party's Presidential candidate. He was eventually elected as the President in December 2002. Being in the union's debt, the new President tried to help the union in its dispute with Cho Hung Bank.

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<sup>97</sup> The law has prevented movements promoting both the unification of the Korea Peninsular and democracy.

<sup>98</sup> The Primary Election is an election in which people (including non-party members) vote for someone to become a Presidential candidate for a political party.

Sixthly, following a decision made by the CC in March 2002, the NO established a system to publish and send both a new bimonthly KFIU magazine<sup>99</sup> ("Future of Labour"), covering news of all branches, and a biweekly KFIU newspaper<sup>100</sup> ("Financial Labour News") to all members. Furthermore, in accordance with another decision made by the CC in May 2002, systems of news-sending by fax and message-sending by mobile phone to 5,000 sub-branch chiefs were established.

Seventhly, acting in accordance with a decision made at the CC in November 2002, the NO formed a committee<sup>101</sup> whose task was to prepare the organizing of irregular employees.

Lastly, the union has undertaken various other activities in order to strengthen the industrial union. These include the contracting of industry-wide Collective Bargaining Agreements (Basic CBA 108 clauses, Agreement of Employment Security, Agreement of Company Development Committee) in 2001, the introduction of five working days per week for the first time in Korean history in 2002, the introduction of a semi-post-entry closed shop<sup>102</sup>, extension of leave for childbirth from 90 days to 105 days, the provision of company nurseries, and the establishment of an allocation system for the promotion of female employees in 2003. These achievements have greatly increased the morale of union members. All systems, such as information transfer, education, and organization, have been changed with the objective of developing strong unity within the KFIU. For example, the union has established a computer network system accessible to both the rank-and-file and union leaders. In addition, the union has increased the number of full-time officers in its headquarters<sup>103</sup> in order to strengthen the role of the industrial union. As already explained in Section 7.3.1.2, for institutionalization, unions generally promote the establishment of information transfer systems or new organizational structures.

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<sup>99</sup> "Future of Labour" is 90 pages in length, and deals with news of all branches and significant union issues in detail.

<sup>100</sup> "Financial Labour News" is composed of eight tabloid pages, and reports union news quickly. It has been published since 2000, when the KFIU was established.

<sup>101</sup> The roles of the committee are to research all aspects of irregular employment. This includes their number, their working conditions, educating them about the union, finding the best way to organize them, and creating a union homepage for them ([bi.kfui.org](http://bi.kfui.org)).

<sup>102</sup> Although an offer of employment is conditional on joining a recognized union the union members can secede from the union without any punishment according to Korean labour law.

<sup>103</sup> As a result, the number of full-time officers in headquarters increased from 17, in 2001, to 32, in 2003.

The following comments by a manager of the NO express well the notion of institutionalization:

We have done our best to strengthen the industrial union system in our organization to improve the union's capacity after tasting failure at the KMB/HB strike. We firstly changed the method of union leadership election from indirect vote by representatives at the NC to direct vote by the rank-and-file; this promoted members' participation in the union's activity and bolstered the leadership's authority. Secondly, we have conducted industrial bargaining successfully to the point that now all employers are involved in multi-employers bargaining. Through industrial bargaining, we gained an industrial CBA, a five-day working week, semi-closed shop, and real wage increases. Moreover, through the processes of industrial bargaining, we have been able to strengthen the unity between members and promote members' morale. Thirdly, the number of full-time officers in the NO increased. As the industry-level bargaining advanced, the NO's role was strengthened and the BOs dispatched their officers to the NO. Fourthly, the number of members increased (from 61,875, in 2001, to 79,820, in 2003) as the union's power increased and the semi-closed shop system commenced. Fifthly, publicity and education activities were increased as the NO's role increased. We now publish a monthly newspaper and bimonthly magazine, and send emergency messages by fax and mobile to chiefs of sub-branches and union officers. We have also conducted in-house education courses for new union officers (for two days and three days), and started a professional education course, 'Labour College', for union officers (length of course is three months); the aim of the latter is to cultivate labour leaders for the long-term. We have also conducted a regional education course for the chiefs of sub-branches (a one-night, two-day course), and arranged for seminars by scholars and other labour experts for union officers in the NO and branch chiefs. Sixthly, we have held several cultural activities, where members can join in union activities; these include the Financial Workers Turtle Marathon, climbing, athletic meetings, and a commemoration on the anniversary of the July 2000 strike victory (which a huge number of members attended). Seventhly, we operate several apparatuses such as CP, CSW, and CU to extend solidarity activities with civic groups and political parties. Lastly, we have developed policies and strategies with scholars and labour and finance professionals. In addition, we are now operating a research institute of finance policy in order to develop alternative policies in advance, and therefore respond effectively and rapidly to coming challenges (Interview by the author, November 2005).

### **Intuiting**

In order to effect the intuition of new information by members, the union utilized newspapers, journals, books, education courses, meetings, and participation in collective actions. Since 2001, the union has established several education courses (such as the aforementioned 'Labour College') for all levels of union representatives, union officers, chiefs of sub-branches, and presidents of branches. The biweekly newspaper

and the bimonthly magazine continued to be published. In addition to the newsflashes and statements to the chiefs of sub-branches (for circulation to members) there have been new initiatives such as the "Any Fax System" for 6,000 sub-branches, the "Mobile Message System" for the chiefs of those sub-branches, fax newspapers for sub-branches, and special newspapers devoted to collective bargaining for all members. The KFIU also continues to occasionally publish books which are sent to the chiefs of sub-branches for display, and which members can read at any time.

Union members' intuition of new information through the union's institutionalization of delivery systems of information and regular meetings (or education and events) promotes once again the other processes of learning (interpretation, integration, and institutionalization). Together, these processes contribute both to the unity between members and to the development of future strike strategies.

A union member comments on the process of obtaining information about the union:

I gain information about the union mainly from the union's newspapers. I can access those easily because the chief of the sub-branch directly distributes them to me. My colleagues and I often discuss interesting or controversial union issues. We also sometimes ask questions to the chief of the sub-branch on the spot or at the sub-branch meeting. We sometimes enquire of the full-time officers in the union branch office through the union's Internet homepage. In the period of collective bargaining, my colleagues and I frequently used to access the union's Internet homepage in order to find out the most up-to-date progress on the bargaining. I also have chances to discuss union issues with colleagues who work at other branches whenever I attend union events such as picnics or athletic meetings or rallies. I was especially able to learn a lot about the union when I participated in the strike in June 2003. It was a place of education; I was able to learn what the union's activities is, how strong union power is, how our bank is operated, and what is the government's restructuring policies (A rank-and-file member interviewed by the author, November 2005).

The processes and effects of learning (as they related to the strike at CHB) are well expressed in the following interviewees' comments:

We (the rank-and-file members) and union officers were united completely at the previous strike. We trusted them. They actively conducted a publicity campaign, using union newspapers and flash news. In addition, there were a lot of meetings and information communications. (A rank-and-file member interviewed by the author, November 2005)

We conduct an education course for the chiefs and deputy-chiefs of sub-branches every spring, one for woman members every fall, another for exemplary members (cadets) annually, and another for regional union officers twice a year. Our branch (CHBU) and Seoul Bank branch especially emphasize the importance of education, much more so than other union branches (A full-time branch officer, interviewed by the author, November 2005).

Since the second half of 1999, when union and management made a compromise (bank management now have to take into account the degree of employee participation in union education when they evaluate the branches' management achievement), managers of bank branches have been encouraged to send union members to union-run education courses. Thus, inevitably, the degree of members' participation in education has increased (A full-time branch officer, interviewed by the author, November 2005).

Since 2000, we have operated regional meetings at which the chiefs of sub-branches gather. We divided 400 sub-branches into 21 regions (i.e. approximately 20 sub-branches are represented at each meeting). We have allowed enough in the budgets of each region for them to hold meetings or events (e.g. picnics, athletic meetings, meetings of the chiefs of sub-branches). Through these events, unity between members at the regions has been strengthened. The real worth of the regional meetings was displayed at the strike in June 2003 when there was a very successful mobilization (A full-time branch officer, interviewed by the author, November 2005).

### **Integration and institutionalization of the strike strategy**

First, the NO recommended, in a report to the CC in November 2002, that it was necessary to form an emergency counter (measure) committee as part of the preparation to oppose the sale of CHB. According to the report, the Government was preparing a third restructuring of the banking sector, involving the privatization of banks and mergers. The sale of CHB would be the first step in this new restructuring, and that privatization through mergers would also lead to more mass redundancies. Thus, the report states, the union needs to form a special committee to respond to the third restructuring (KFIU, 2003a and 2004a).

Secondly, the CC approved the proposal made by the NO.

Thirdly, the NO, acting on a decision made by the CC, changed the organization system to an emergency counter(measure) system, and formed the "Emergency Measure

Committee" in order to respond to the sale of CHB. The committee defined its opposition to the sale of CHB as follows (KFIU, 2003a and 2004a):

1. The sale of CHB is a breach of the July Agreement that guaranteed the survival of an independent CHB on the condition that it put into operation a self-help plan approved by the MECB. The MECB granted this approval, believing the CHB had the ability to survive independently, in November 2000.
2. The sale of CHB to SHB will result in a loss of public funds, as the Public Fund Management Cooperation (PFMC)<sup>104</sup>, due to political pressure, underrates the sale price of CHB.
3. The Government, for political reasons, is forcing too early the privatization of CHB in order to show that it is restructuring the banking sector.
4. The goal of privatization focuses on only mergers and the reckless inducement of foreign capital, thus subordinating the financial industry and the national economy to foreign capital. It will also cause a fundamental distortion of the national economy because foreign investors will only pursue short-term profits.
5. The Government has to form a committee comprising representatives of the Government, unions, and other professionals who can discuss and plan the best long-term direction for privatization and the development of the financial industry.

In addition, the Emergency Measure Committee devised a fight plan against the sale of CHB. The fight plan contained the following (KFIU, 2003a and 2004a):

1. As for the active use of political opportunities, the union should make use of the Korea Tripartite Commission (KTC), arrange meetings with the Presidential candidates and the chiefs of political parties, contact also the Minister of Finance and the Economy, the chief of the Financial Supervision Commission (FSC), and members of the committee of the sale of CHB in order to persuade to cancel the decision of the sale of CHB.
2. As for the mobilization of external resources, the union has to form an organization composed of civic groups that support opposition to the sale of CHB, and to organize a signing campaign, featuring opinion leaders such as prominent social figures and academics, to oppose the sale of CHB.
3. For the mobilization of internal resources, the union has to organize a signing campaign from all employees, their families, and bank customers. The union then has to deliver these petitions to the Blue House. The union also has to let all members wear ribbons with a message declaring their opposition to the restructuring (including the sale of CHB). In addition, the union has to organize a group of 500 cyber fighters with the intention of winning public support, via Internet publicity, for the union's fight. The cyber fighters are to invade homepages of government institutions, the media, and political parties, disseminating information against the sale of CHB. The union also has to organize a campaign in which all employees of CHB hand in their resignation letters before going on strike in order to demonstrate the strength of their determination to fight. The union has to form a team which will devise a strike strategy.

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<sup>104</sup> The Public Fund Management Corporation (PFMC) plays a major role in the management and evaluation of public funds.

Lastly, the NO executed the committee's plan (see Section 5.5.2 for full details of the strike, including the lead-up and the aftermath).

#### **7.5.1.3. Facilitators of OL**

There were facilitators of learning for the strike. The main facilitator for the strike at CHB was the strike failure at KMB/HB in December 2000. Secondly, the worrying prospect of redundancy resulting from a merger became another facilitator of learning. Thirdly, there was a strong sense of mission in union leaders and members that they had to prevent the sale of the nation's oldest bank to foreign investors. Lastly, factors of accountability, deliberation, and access to a various information sources within the union organization (see Section 4.6.2.4) were facilitators of learning as well. The union was thus able to reflect on the failure and success of previous strikes prior to preparing more thoroughly for the next challenge.

#### **7.5.2. Strategy**

##### **7.5.2.1. Content of strategy**

In mobilizing various resources the union aimed to persuade the Government to cancel its plan to sell CHB. The union identified the sale plan as an injustice. The content of the strategy was as follows.

First, it wanted to establish justifications for the strike by highlighting several facts: 1. the hasty sale of CHB was a breach of the July agreement; the Government had promised that it would permit the independent survival of those banks that demonstrated management normalization. 2. The sale to SHG was seriously undervalued and motivated by political reasons. 3. The sale of the nation's oldest bank (it was 106-years-old) to a bank owned by foreign investors would be to relinquish national financial sovereignty. Therefore, the union's fighting motto was "opposition to a forced merger and desperate defence of a historically important national bank".

Secondly, it sought to mobilize various resources from inside and outside, to utilize political opportunities, and to use various collective actions flexibly.

Lastly, it aimed to paralyze bank business through the mobilization of all employees, including IT operators and non-union members such as irregular employees. Due to such a thorough strategy, the union was able to stage a successful strike.

#### **7.5.2.2. Increase of strategic capacity**

Due to positive learning from the failure and success of the two previous strikes (thereby conducting the higher-level learning: Table 7-2), the union's strategic capacity regarding endowment of motives, the wider dissemination of more information, and the use of the heuristic process increased significantly in the strike in December 2000.

##### **Endowment of motives**

The KFIU used internal and external motives in order to maximize employee participation and management cooperation for the mobilization. The union claimed justifications for the strike by imprinting on the minds of all employees in CHB the fact (mentioned Section 7.5.2.1) that the cancellation of this unjust sale should be of paramount importance to them. It became an internal motive of employee participation. The demand that the sale be cancelled also contained an external motive for employees because the sale produced an outcome, redundancy by a merger. In other words, the claiming of proper justifiable demands for mobilization became the best endowment of motives.

##### **Use of information**

Due to the union's justifiable requirement to be able to induce all employees to participate, the union was able to access a wide variety of useful information from both employees and management. In this case, one of privatization, the strike issue of strike directly impacted on managers' interests as well as those of union members.

##### **Use of heuristic process**

By application of the heuristic process (i.e. the reflection on the failure and success of previous strikes), the union recognized that they could succeed in strikes when they utilized both internal and external resources, exploited political opportunities, and adopted various and flexible collective actions.

### **7.5.2.3. Effective use of strategic factors**

Due to the aforementioned increase of strategic capacity, the union could use effectively the main elements of strategy, timing of initiative, targeting of resources, and deploying tactics. First, the union decided to go on strike only when it appeared to have no choice, having exhausted all other kinds of collective actions and political opportunities. The timing, therefore, was when all employees agreed that to strike was the only option.

Secondly, when the union went on strike at last it mobilized even IT operators and irregular employees in order to completely paralyze bank business. That is, the union targeted as many resources (including outside resources) as they could in order to prevail in the strike.

Lastly, the union deployed strong fighting tactics, such as the occupation of the bank's headquarters and the mobilization of IT operators and irregular employees, in order to substantially paralyze bank business. In addition, during negotiations, the union employed the flexible tactic of having both substantial and justifiable demands on the basis of then-current conditions. In other words, the union deployed a flexible, yet tough negotiating tactic in this strike, necessary in circumstances in which it had its back to the wall. As a result of negotiations with the Government and those undertaking the merger, the union won a successful agreement.

### **7.5.3. Mobilization**

#### **7.5.3.1. Resource mobilization**

The union maximized resource mobilization from inside and outside. First, the union succeeded in mobilizing employees, including IT operators and irregular employees. About 6,000 (out of total 7,721 employees) participated in the strike. Secondly, the union utilized outside resources such as a group of ex-executives of CHB, civic groups, a group of small shareholders of CHB, the FKTU (a national centre of unions), and news media.

#### **7.5.3.2. Use of political opportunity**

The union exploited to the utmost the Presidential election period in order to cancel the sale of CHB. It argued that the sale of CHB was hurried and tantamount to a giveaway, a ploy by the Government to show the great success of the restructuring of the financial

sector. Not only was the sale poor business (because it was being sold so cheaply) but the union contended that there was a political conspiracy related to the sale, in that it would benefit a specific buyer. Thus, the union was able to receive support from Presidential candidates and induce public support for its cause.

#### **7.5.3.3. Use of various collective actions**

The union deployed various collective activities for mobilization. These included confiscating of loan files to thwart inspection, sending of memos to the media, wearing of casual clothing, big rallies, cutting of hair by 4,000 members, delivering of all employees' resignations to the Blue House, members' blood donations, collection of a strike fund (£2,500,000, i.e. £400 per member), distribution of 1,000,000 leaflets to citizens, organization of a petition against the sale, inserting of advertisements in newspapers, using 500 Cyber fighters, and the holding of a strike at bank headquarters. Together, these actions were the most active industrial responses in the history of the Korean white-collar labour movement. The resultant strike was a powerful one, in which almost all employees of CHB participated and which lasted for five days (18-22 June). It led to total business paralysis at CHB.

#### **7.5.3.4. Outcome**

The result of the strike was a victory for the union because the action led to a successful agreement. The positive OL obtained from assessments of the failure of the strike in December 2000 and the success of the action in July 2000 made the union increase strategic capacity for the next strike. The improved strategic capacity led to success in the timing of the initiative, the appropriate targeting of resources, and the astute deployment of flexible tactics regarding the mobilization. Thus, the union could induce maximum resource mobilization from inside and outside, utilize political opportunities, and deploy various collective actions for the achievement of its victory.

#### **7.5.4. Conclusion**

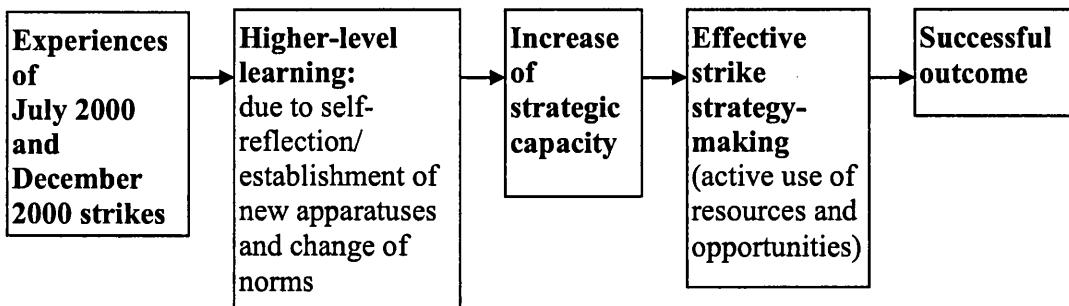
The experience of strike failure in December 2000 actually contributed to the high-level learning (OL) for the next strike. The process of OL proceeded from interpretation by members, to integration by the NO (or the CC), to institutionalization by the NO, and to intuition by members. The NO played a leading role in strike strategy-making, recommending the formation of a special committee in order to respond to the sale of

CHB to the CC, organizing a committee with the responsibility to develop a logical and articulate opposition to the sale, and, in the end, executing the strategy. The main things the union had learned from the previous strike were that the union had to strengthen the system of industrial unionism, improve its strategic capacity regarding the mobilization of resources (internal and external), and better use political opportunities if it were to succeed in future strikes.

Therefore, the union's effort was, first, to strengthen the systems of industrial unionism in order to promote stronger unity and to be able to respond to future challenges effectively. It did this in a number of ways, including the introduction of the direct election system of union executives, the contracting of CBAs regarding check-off system of membership dues (i.e. for the amount dedicated to headquarters), the establishment of a semi-post entry closed shop, winning, for the first time in Korean history, a five-day working week for employees, publishing a new magazine, and establishing a computer network system accessible by all members. Secondly, the union established the CP, the CSW, and the CU in order to maximize the use of political opportunities and external resources in case of need. Thirdly, it formed the Emergency Measure Committee to develop a strategy for the strike at CHB. This strategy included the development of a justification for the action and mobilization of resources and opportunities.

Consequently, the union succeeded in mobilizing, to the maximum, internal resources, including IT operators, irregular employees and managers, and external resources such as a group of ex-executives of CHB, civic groups, a group of small shareholders of CHB, the FKTU (a national centre of unions), and news media. It was also able to utilize political opportunities such as support of Presidential candidates during the election period. In addition, the union developed and used various and new tactics of collective actions (see Section 7.5.3.3). This all contributed to the subsequent strike victory (Figure 7-4).

<Figure 7-4> Relationship between learning and outcome of strike in June 2003



## 7.6. Conclusion

As a result of the analysis of the four strikes, we are able to confirm that there was a relationship between learning and the outcome of mobilization. At the first strike, in September 1998, bank unions' learning on the subject of strikes was based on the experience of other unions. However, this was only indirect experience, and led to lower-level learning relying on given organizational structures and given set of norms. This led to their strike strategy being little more than the mobilization of their members. Furthermore, they failed to overcome the employers' counteraction (which led to a break-up of union unity). Consequently, they could not produce a successful outcome from the strike (Figure 7-1). In addition, the unions were unable to overcome the political and environmental obstacles created by the national financial crisis. Chief among these obstacles was the public's understanding that restructuring to overcome the crisis was necessary.

For the second strike, in July 2000, the KFIU used higher-level learning (adjusting overall norms and changing organizational structures) (Table 7-1), gaining positive learning data, such as the necessity of an industrial union for stronger unity and a complete mobilization of resources and opportunities, through OL processes (i.e. interpreting, integrating, institutionalizing, and intuiting, the processes identified by Crossan et al. (1999)), from the earlier strike's failure. Thus, it was able to increase strategic capacity regarding endowment of motives, use of information, and use of the heuristic process. It could therefore devise a better strategy regarding timing of initiative, targeting of resources, and tactics, thereby more effectively mobilizing

resources and opportunities. Consequently, the union produced a successful outcome from the strike (Figure 7-2).

In the case of the third strike, in December 2000, the union conducted only a lower level of learning again. This might even be called negative learning, as it comprised overconfidence and negligence in its review of the problems from the previous strike. The great success of that strike had lulled the union into not seriously considering that there had also been problems. Thus, the union's strategic capacity was decreased, leading to a poor strategy and inadequate mobilization. Although the union succeeded in mobilizing internal members in the KMB and HB it was not enough to lead to strike success (Figure 7-3).

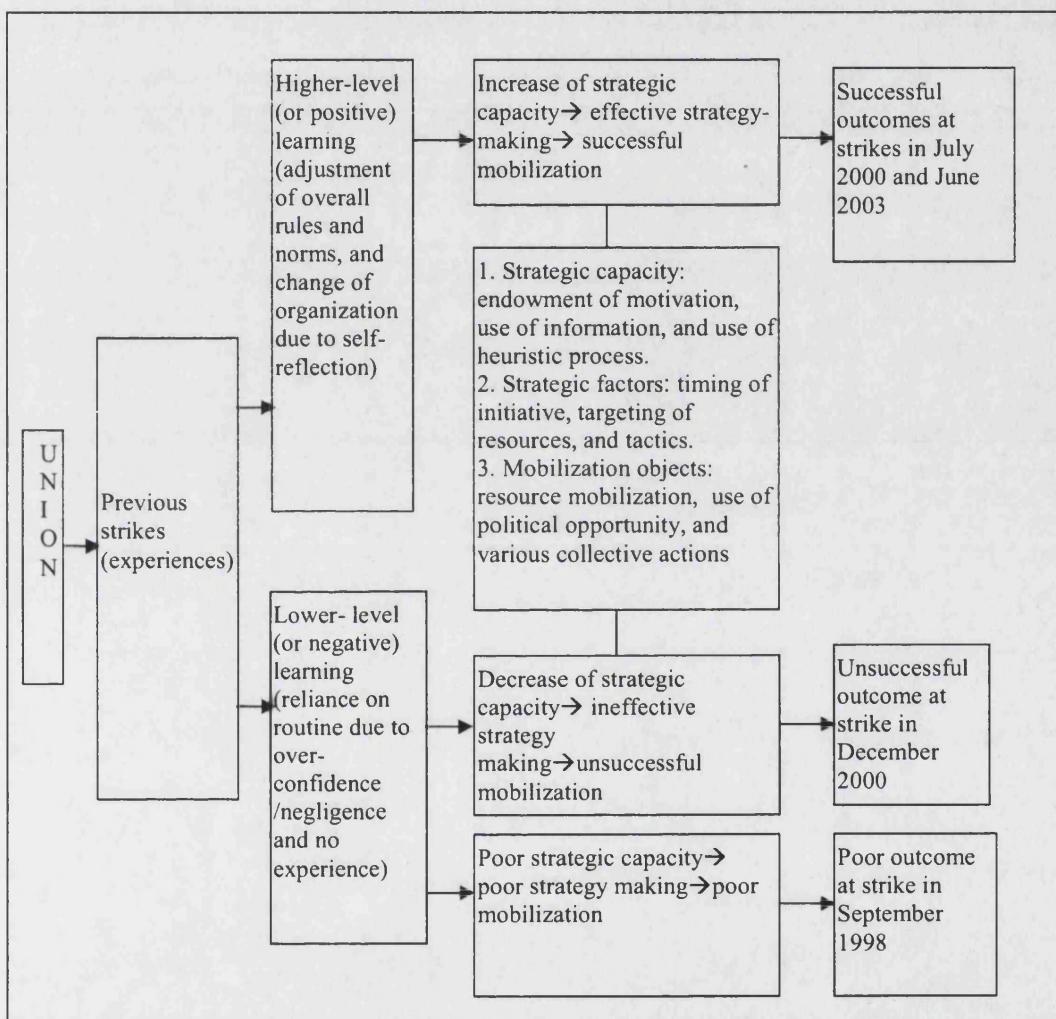
Neither the union's resource mobilization in the two banks nor the political situation was bad compared with the situations in the case of the strike in July 2000. The union could have achieved better outcomes if it had conducted better communication between leaders and the rank-and-file.

Lastly, at the strike in June 2003, the union conducted a higher-level learning (Table. 7-2), once again reaping the benefits of positive learning, such as self-restraint, development of various new tactics, and use of various resources and opportunities, from the lessons (good and bad) of previous strikes. Thus, the union was able to increase strategic capacity of mobilization, create a better strategy, and induce better mobilization of resources and opportunities. Consequently, the union could produce a successful outcome from the strike (Figure 7-4).

In conclusion, an analysis of the four strikes shows the existence of a relationship between OL and effectiveness of mobilization. To sum up, when unions learnt positively from previous strikes they were able to increase strategic capacity regarding endowment of motives, use of information, and use of the heuristic process. This led to a better strategy regarding timing of initiative, targeting of resources, and tactics, all of which led, in turn, to better effectiveness of mobilization of resources, exploitation of political opportunity, and use of collective actions. Consequently, the unions gained successful outcomes from these strikes. On the other hand, when they had negative learning or poor learning from previous strikes, strategic capacity was decreased or, at least, not increased. This led to poor, even worse, strategies and ineffective

mobilization. The strike outcomes were also poor. Strikes to which positive learning contributed were those in July 2000 and June 2003 (the victories), while those which suffered from either an absence of, or negative, learning, were those of September 1998 and December 2000 (the failures) (Figure 7-5).

**<Figure 7-5> Relationship between OL and effectiveness of strike**



**<Table 7-1> Content of OL (higher-level) at the strike in July 2000**

Date	Content	Reason and result
11.1998	Changing the leadership of the KFFU (a federation of bank unions) to a more militant one	To establish a stronger leadership and to prepare for future challenges
1.1999	Reshuffling union officials' jobs and recruiting two more officials (research and publicity professionals) in the NO	To aid the preparation for a more vigorous and powerful challenge in any future action.
11.1998	Forming a special committee of whose aim was to establish an industrial union	To promote unity between unions.
3.1999	Conducting a joint bargaining agreement involving almost all of the retail banks (15 out of 17). It was the biggest such exercise in Korean banking history	To pursue stronger unity and produce better outcomes. It led to successful results such as an agreement of employment security and an agreement to limit the recruitment of irregular workers.
4.1999	Instigating a signing campaign to take legal proceedings against the IMF to claim for compensation. It progressed with the assistance of civic groups.	Through the campaign, the union was able to promote both members' unity and solidarity with civic groups as preparation for the union's next fight.
2.2000	Forming a policy-making committee.	To develop a comprehensive and logical case against the second restructuring and to prepare for a strike.
3.2000	Establishment of an industrial union (change of the organization form from a federation of enterprise unions to an industrial union).	The KFIU acquired authority over bargaining in the banking sector. This meant stronger leadership and unity among union members in the sector.
6.2000	Forming the Emergency Measure Committee.	In order to lead the strike effectively.

**<Table 7-2> Content of OL (higher-level) at the strike in June 2003**

Date	Content	Reason
10.2001	Making a regulation defining relief measures for members suffering hardships as a consequence of union activities	To promote members' active participation in strikes
12.2001	Making a regulation allowing members to directly elect executives	To promote members' participation and loyalty
2.2002.	Check-off system for headquarters share of membership dues by making a CBA with employees	To strengthen leadership authority
2.2002	Establishing the CU, the CSW, and the CP.	To extend its mobilization of external resources and use of political opportunities.
3.2002	Participating in the Primary Election of the ruling party by helping a pro-labour candidate, Mr Rho.	To extend the use of political opportunity
3.2002	Establishing a system to publish and distribute both a new bimonthly KFIU magazine ("Future of Labour") covering news of all branches and a biweekly KFIU newspaper ("Financial Labour News") to all members Establishing systems of news sending by fax and message sending by mobile to 5,000 sub-branch chiefs.	To share information quickly and to promote members' participation, thereby helping intuiting
11.2002	Forming a committee whose task was to prepare the organizing of irregular employees.	To extend membership.
2001 to 2003	Contracting industry-wide Collective Bargaining Agreements (Basic CBA 108 clauses, Agreement of Employment Security, Agreement of Company Development Committee) in 2001; introduction of five-day working week for the first time in Korean history in 2002; introduction of a semi-post-entry closed shop; extension of leave for childbirth from 90 days to 105 days; the provision of company nurseries; introduction of an allocation system for promotion of female employees in 2003; establishing a computer network system accessible to both the rank-and-file and union leaders; increasing the number of full-time officers in its headquarters from 17, in 2001, to 32, in 2003	To strengthen the industrial unionism, thereby developing strong unity within the union. These achievements have greatly increased the morale of union members

# CHAPTER 8. CONCLUSION

This thesis posed the question of how and why some strikes are more successful than others. By looking at how learning from previous strikes influenced strategy-making and outcomes of subsequent strikes in the Korean banking sector, this thesis aimed to observe the relationship between OL in unions and the effectiveness of mobilization. Four strikes conducted by the KFIU were studied, and three major issues – the content and processes of learning from previous strikes, the strategy development of subsequent strikes, and the content and outcomes of mobilization – were analyzed. Studying the learning processes in unions reveals the function (or role) of dialogical organization in power (or mobilization). In other words, unions recognize and correct their problems, devise creative strategies, and produce better outcomes through the meaningful dialogical processes.

This chapter summarizes the main findings of the research, identifies academic and practical implications of the research, and lastly, points out academic limitations that raise issues for future research.

## 8.1. Overview of Main Findings

### 8.1.1. Comparison of the degrees of success at the four strikes

As we examined in Chapter 5, two of the strikes conducted by the Korean bank unions were more successful to achieve their desired outcomes than others. One explanation for the varied results can be obtained by relating the content of the mobilization and the outcomes of each strike as follows.

First, when we compare the two industry-wide strikes, in the first, the September 1998 action, the unions succeeded in mobilizing 19 percent of their members (7,000 out of a total of 36,569 members employed by the nine banks) in their protest against planned redundancies. Furthermore, the unions had succeeded in attracting 20,000 members to the rally held on the eve of the strike. However, the unions failed to maintain unity until the following day due to their opponents' (employers and the government) conciliation and intimidation. Consequently, the outcomes of the strike were poor, and the union

members concluded that the strike had been a failure (although the media evaluated it as the half success and half failure). On the other hand, the unions succeeded in mobilizing almost 31 percent of their members (20,000 out of total 65,000) for the second strike, in July 2000, called with the aim of persuading the Government to change its restructuring plan. The pre-strike rally held on the eve of strike attracted 30,000 members. In addition, the unions succeeded in developing a strike justification – that the level of the Government's involvement in bank business was immoderate – with which all parties (union members, employers, and even the Government officials including the media) were in sympathy. Furthermore, they actively sought solidarity with civic groups as well as obtaining the support of opposition political parties. Consequently, all parties evaluated the strike as a great success (Table 5-5).

Secondly, when we compare the two strikes at the individual banks, the union succeeded in mobilizing 85 percent of their members (13,000 out of a total of 15,293 members at the KMB and HB) in December 2000. Although the strike (called in an attempt to persuade the Government not to proceed with the merger of the two banks) was strong, and lasted for seven days, it was eventually broken up by force (by the police) without having achieved its stated outcome. Consequently, the members' evaluation was that the strike had been a failure (although the media evaluated it as partly a success and partly a failure; Section 5.4.4.2). On the other hand, in the June 2003 action at CHB (called to cancel the privatization plan for the bank), the union was able to mobilize all 5,445 union members and even many non-union employees of the bank. In addition, the union employed various tactics as well as astutely and actively used external resources and political opportunities. Consequently, it did reach an agreement (with SHG and the Government) which included many substantive benefits for its members although the union failed to gain its main goal (the cancellation of the privatization plan) (Table 5-10).

Looking at the content of each mobilization and the subsequent outcomes of the four strikes, we can rate the strikes (bearing in mind that it is much more difficult to succeed in industry-wide strikes than in strikes at individual banks).

We can say that the strike in July 2000 was the most successful one. The reasons are as follows: 1. the unions succeeded in mobilizing almost 31 percent of their members to participate in the industry-wide strike. 2. They produced a successful agreement with

the Government. 3. They developed a good justification for the strike. 4. The outcomes of the strike were evaluated favourably by all parties. 5. The unions made intelligent and active use of political opportunities and external resources.

The strike in June 2003 can be evaluated as the second most successful strike. The reasons are as follows: 1. the union succeeded in mobilizing all of its members. 2. They produced a fruitful agreement which was approved by a majority of its members in a ballot at the end of the action. 3. They developed various collective actions and actively exploited political opportunities and external resources. 4. However, 41 percent of the members opposed the agreement because it did not include attainment of the prime goal of the strike. The reason for this perception though was that the members' justification for the strike was motivated by just a target (the cancellation of the privatization plan), thus, they were unable or unwilling to appreciate the other beneficial results that were obtained.

The strike of September 1998 can be placed in third position. The reasons are as follows: 1. the unions succeeded in mobilizing 19 percent of its membership (although 55 percent of the members had participated in the rally held on the eve of the strike) in the first industry-wide strike in their history. 2. They produced an agreement. 3. However, they did not make great efforts to use external resources and political opportunities. 4. They failed to maintain the unity of bank unions, thereby leading to a poor outcome. Thus, members experienced a sense of defeatism, evaluating the strike as a failure.

Lastly, we could grade the December 2000 strike as the least successful. The reasons are as follows: 1. they succeeded in mobilizing 85 percent of their members and carried out a strong strike for seven days. 2. However, they failed to gain any outcome. 3. As the goal of strike was derived from self-interest, other unions were unwilling to support the action (Section 5.4.2.2). 4. They failed to use external resources and political opportunities. 5. They went on strike without a complete strategy because the strategy promoted by the union leaders was at odds with that of the members (Section 5.4.4.2).

If we score the degrees of strike success related to mobilization of membership, use of external resources and political opportunities, strategy, and outcomes we could, utilizing

a scoring system ranging from four points for 'very good' to one point for 'very poor'<sup>105</sup>, rate them as follows: the July 2000 strike scores the most (16 points), followed by the June 2003 strike (15 points), then the September 1998 action (eight points); the lowest score (six points) is attained by the December 2000 strike (see Table 8-1).

In evaluating strikes, we need to remind ourselves of Tilly's mobilization level (memberships' participation ratio) and Offe and Wiesenthal's collective strategy of conflict (employing a form which not only aggregates memberships and their interests but also overcomes the individuality of interests and the obstacles to effective organization by redefining a collective identity on non-utilitarian forms discussed in Section 6.1.2). Thus, after taking into consideration the differences in membership control unions have in industry-wide actions as opposed to those in strikes held at individual banks, we can judge the unions to have succeeded in mobilizing their members at all four strikes. However, at two strikes (those of September 1998 and December 2000) the unions failed to overcome the difficulties (such as the aggregation of memberships' interests and the overcome of individuality of interests) consequent upon mobilizing few people other than their own members, partly, of course, because those members acted out of self-interest; moreover, they were unable to successfully deal with such obstacles as external environmental factors and counteractions by their opponents. The reverse applied in the other two strikes which were, therefore, more successful.

**<Table 8-1> Comparison of the degree of strike success**

	Industry-wide strike	Industry-wide strike	Individual bank strike	Individual bank strike
Date of strikes	9.1998	7.2000	12.2000	6.2003
Mobilization of membership	3 (good)	4 (very good)	3 (good)	4 (very good)
Use of external resource and political opportunities	1 (very poor)	4 (very good)	1 (very poor)	4 (very good)
Strategy (including tactics)	2 (poor)	4 (very good)	1 (very poor)	4 (very good)
Outcomes	2 (poor)	4 (very good)	1 (very poor)	3 (good)
<b>Total score</b>	<b>8</b>	<b>16</b>	<b>6</b>	<b>15</b>

Sources: Section 5.3, 5.4, and 5.5  
Degree of mobilization success is continuum.

<sup>105</sup> The scoring system is: Very good – four points, Good – three points, Poor – two points, Very poor – one point.

### **8.1.2. Reasons for the difference of the degrees of strike success**

Through analyzing the four strikes organized by the KFIU between 1998 and 2003, we can confirm that the degree of strike success is associated with the existence (or otherwise) of positive learning (or OL) from previous strikes. In other words, when the union conducted higher-level learning, such as the adjustment of overall norms or rules and the change of organizational structures, in order to resolve its inconsistency and make its norms more effective, it was able to increase strategic capacity regarding endowment of motives, use of information, and use of the heuristic process. It was able to devise a more effective strategy regarding timing of initiative, targeting of resources, and deploying of tactics, thereby more effectively mobilizing resources and opportunities. Consequently, the union was able to obtain successful outcomes from the strike. More detailed studies of Korean strikes, employing OL theory, the strategic capacity perspective, mobilization theory, and identifying when the KFIU gained higher-level learning through the processes of OL which facilitated self-reflection on previous failures, were included in Chapter 7.

There were two examples of higher-level learning. In the case of the July 2000 strike, bank unions (learning from the unsuccessful September 1998 strike) recognized two needs, one for a change of union form to an industrial union to effect stronger unity, and the other for thorough preparation (and, therefore, a comprehensive strategy), before embarking on the next strike (Table 7-1). Thus, they first chose more militant leaders at the next leadership election. Secondly, they changed the union form from enterprise unions to an industrial union. Thirdly, they developed a justification for strike action that could gain public support. Lastly, they devised a strategy that could successfully mobilize more resources and exploit political opportunities. As a result, the union gained successful outcomes from the strike.

In the case of the June 2003 strike, the KFIU was better prepared after evaluating reasons for the failure of the strike at KMB/HB in December 2000. These reasons included the development of a poor strategy (based on over-confidence derived from the July 2000 victory) and the mobilization of members only. Consequently, the union recognized once again the necessity of thorough self-reflection, of maximizing the mobilization of both internal and external resources, of exploiting available political

opportunities, and of utilizing various collective actions flexibly if it was to achieve a successful outcome; all of this was positive learning, gained from the successful strike of July 2000 and the failed strike of December 2000. Positive learning does not guarantee success; it is, however, a necessary if not sufficient condition for success.

The union undertook specific actions prior to, and during the, 2003 strike (Table 7-2). These were, first, to strengthen the systems of industrial unionism in order to promote stronger unity and to be able to respond to future challenges effectively. Thus, it introduced a direct election system for union executives (meaning that it was the rank-and-file who voted for the executives, and, to whom, the executives became therefore directly accountable), contracted CBAs regarding a check-off system for membership dues (thus ensuring that the head office received the dues it was owed), introduced a semi-post entry closed shop introduced, for the first time in Korean history, the five-day working week, published a new magazine, and established a union computer network system to which all members had access. Secondly, the union established the Committee of Politics (CP), the Committee of Social Welfare (CSW), and the Committee of Unification (CU) in order to maximize the use of political opportunities and external resources that might be needed. Thirdly, it formed the Emergency Measure Committee (EMC) at an early stage of the strike planning to develop a successful strike strategy at the CHB; this strategy included the articulation of a justification for the strike, the mobilization of a variety of resources and opportunities, and the development of a range of new tactics (see Section 5.5). The intention was to facilitate a complete and flexible mobilization, thereby maximizing chances of victory.

Conversely, when the union conducted lower-level learning (negative or passive learning), such as reliance on routine, the partial ignorance due to lack of strike experience, or the over-confidence and negligence born of complacency after the great success of earlier strikes, the union's strategic capacity decreased, leading to poor strategy, poor mobilization, and, inevitably, failure to achieve its aims in the strike.

An example of such low-level learning can be found in the case of the December 2000 strike, when negative learning caused by over-confidence and negligence in the review of problems that had existed, notwithstanding the success of the preceding strike, led to a decrease in the union's strategic capacity. The consequences of this were a poorer strategy, inadequate mobilization, and, failure in the subsequent strike. Another

example is provided by the case of the September 1998 strike, the first bank strike in Korea's history. Bank unions, with no accumulated learning from previous industry-wide strikes, were unable to develop an effective strategy because they responded to crisis by making strategies within constant organizational norms. The unions, calling on members only, were able to mobilize relatively small support. Consequently, they could not produce a successful outcome from the strike.

In addition, we can observe that there were differences in the extent of resource mobilization and the use of political opportunities between successful and failed strikes. The KFIU prevailed in the strikes of July 2000 and June 2003. In each case, the union mobilized both an internal resource (i.e. most of the affected branch's, or branches', members), and outside resources (e.g. civic groups, political parties and media), and utilized political opportunities (e.g. the General Election and the Presidential Election). On the other hand, in the failed strikes of September 1998 and December 2000, the union mobilized only its own members. Furthermore, the results of the four strikes illustrate the difference in effectiveness between an interventionist approach by unions to restructuring and a pragmatic (reactive) approach (see Section 1.2.2). Bank unions were able to achieve most successful outcomes at strikes in July 2000 and June 2003 by intervening in the restructuring at an early stage, but were unable to obtain successful outcomes from the strikes of September 1998 and December 2000, when they adopted a reactive approach (i.e. engaging in negotiation in response to management's proposals).

To sum up, the union's strikes were successful when it conducted higher-level (positive) learning from previous strikes. This success was due to better mobilization of resources and the use of political opportunities, each a product of higher-level learning. Conversely, strikes failed when the union conducted lower-level (negative or passive) learning from previous strikes (Figure 7-5). Such learning led the union to only mobilize its own members.

### **8.1.3. Content of OL in unions**

#### **8.1.3.1. Processes of OL**

This study shows that the KFIU (a dialogical organization) learns via the four processes, interpreting, integrating, institutionalizing, and intuiting, identified by Crossan et al (1999). The process of OL generally proceeded from interpretation by members (rank-

and-file members and officials), to integration through the National Congress (NC) (or the Central Committee (CC)), to institutionalization by the National Office (NO), to intuiting by members. The NO played a leading role in strike strategy-making, with its officials communicating with the rank-and-file and branch officials. After this consultation, the NO suggested a plan regarding strike strategy to the NC and organized a committee to develop and execute strategy and tactics. The processes of communication in unions discussed in Section 4.6.2.2.2 is exactly the same as the OL processes in unions (Figure 6-4). However, OL can occur only when unions utilize the processes to improve their strategic capacity by making substantial efforts such as changing their rules or norms or organizational structures.

The KFIU was able to employ higher-level learning in two strikes (those of July 2000 and June 2003) through application of knowledge obtained from previous strikes. The union recognized the need to change its leadership and organizational form (from enterprise unions to an industrial union) and form the EMC (the committee charged with the task of developing a winning strategy and leading the strike), and create new apparatuses (such as the CP, the CSW, and the CU) in order to maximize the use of political opportunities and external resource mobilization. Such learning (and its use) helped the union gain successful outcomes from these strikes. On the other hand, failure to obtain higher-level learning (from previous strikes) in the cases of the September 1998 and December 2000 strikes led to unsuccessful outcomes from those strikes.

#### **8.1.3.2. Level of OL**

This case study of four strikes confirms that unions sometimes conduct higher- or lower-level learning levels according to their learning attitude. The KFIU conducted higher-level learning before it went on strikes in July 2000 and June 2003 through thorough evaluation (or deliberation) of the reasons for the failures of the strikes of September 1998 and December 2000. Consequently, the union could gain successful outcomes. On the other hand, the union conducted lower-level learning before it went on strikes in September 1998 and December 2000, due to over-confidence and negligence or repetition of norms. These strikes were, as a consequence, unsuccessful.

To explain lower-level and higher-level learning in more detail, the former refers to the error-detection and error-collection process within a given organizational structure or a given set of rules, and it occurs when the error detected and corrected permits the

organization to carry on its present policies or achieve its present objectives. On the other hand, higher-level learning occurs when, in addition to the detection and correction of errors, the organization is involved in the questioning and modification of existing norms, procedures, policies, and objectives, and when the organization learns how to carry out learning. Higher-level learning aims at adjusting overall rules and norms. In other words, when a union engages in high-level learning its members (including leaders) learn about previous contexts for learning. They reflect on and inquire into previous episodes of OL, or failure to learn. As a result of such retrospection, they discover what facilitated or inhibited learning. Thus, they invent new strategies for learning, and they evaluate and generalize what they have produced (Argyris and Schön, 1978: 27).

High-level learning in unions is a multi-level process that begins with individual learning, leads to group learning, and then to OL. These steps are connected by bi-directional processes that involve both the creation and application of knowledge. More specifically, they are composed of four processes that connect individual learning to OL; interpreting, integrating, institutionalizing, and intuiting (Crossan et al., 1999: 525).

#### **8.1.2.3. Facilitators and inhibitors of OL**

Facilitators of learning include external challenges (or crises), previous experiences of failure, internal and external motives of union members, and organizational factors of accountability, deliberation, and access of various information within the union. This case study shows that there were facilitators and inhibitors of learning within the KFIU. The facilitators of learning were the failure of the previous strike and the approaching restructuring of the banking sector by the Government. In addition, the worry of additional redundancies prompted unions to react strongly. Reflection on the failure of an earlier strike made unions more determined to prepare thoroughly for the next one.

On the other hand, the inhibitors of learning in the KFIU were over-confidence and negligence derived from a previous success. In addition, in the case of the December 2000 strike, other inhibitors (or barriers) to learning included interruption of learning processes, psychological barriers, and organizational structures. Interruptions to learning processes are: 1. an interruption of the learning cycle between leaders and the rank-and-file. March and Olsen call this barrier “audience learning” (1976: 159) to highlight the idea that the link between individual action and organizational action is

interrupted. This type of incomplete learning cycle is to be found when individuals change their own behaviour but cannot persuade others to change the organizational rules for behaviour. 2. Superstitious learning. This type of interruption occurs when organizational members draw incorrect conclusions about the impact of organizational actions on the environment. 3. Ambiguous learning. This type of interruption occurs when changes in the environment cannot be clearly identified (March and Olsen, 1976: 156). These interruptions to learning happened between the leaders of the KFIU and the members of the KMBU and the HBU just before the strike on 22 December 2000. The leaders of the KFIU could not persuade the members of the KMBU and the HBU to postpone the strike, in accordance with the provisional agreement. However, the members disagreed, and were convinced that their demand that the merger be cancelled could be attained within two to three days if they went on strike. This misapprehension occurred because they could not identify clearly the change of environment, and, because of the three types of learning interruptions identified above, drew incorrect conclusions from the information available to them.

Secondly, a psychological barrier is sometimes derived from previous strike victories. Success can become a barrier to OL because it leads to managerial overconfidence in the ability to foresee risks. Such a barrier was in evidence in the case of the strike at KMB and HB in December 2000. Union members of two banks had a hazy illusion that they would definitely win if they went on strike. This illusion was inspired by observing the strike victory of July 2000, an action, however, in which they had not actually participated. This indirect experience meant that they were unaware of the fact that a strike could fail, especially one without a comprehensive strategy. On the other hand, crises (unlike successes) are deemed necessary to shake an organization out of its complacency (Sitkin, 1992: 243).

Thirdly, there are barriers to organizational structures and leadership. Although the KFIU was an industrial union, the KMBU/HBU retained, to a significant extent, the inertia of enterprise unions. Therefore, the influence of the KFIU on the KMBU/HBU was limited, and the leaders of the former were unable to persuade the members of the two branch unions to accept the provisional agreement because it focused on regional banks, and contained nothing except that discussions relating to the KMB/HB merger were to be delayed (see Table 5-7). This dissension of views between the KFIU and the KMBU/HBU was an example of the structural barrier referred to by Morgan (1997: 88-

9), who pointed out that departmental structure can inhibit OL by focusing the attention of members on parochial rather than organization-wide problems. In addition, it could be said that the structural barriers were a consequence of a lack of good leadership.

Other inhibitors of learning in unions could include their reactive action repertoire, the scarcity of full-time officers, ideological rigidity, the side-effects of excessive competition between political factions, and the frequent change of leadership.

#### **8.1.4. Changes in employment and industrial relationships**

Since the national financial crisis in 1997, banks have, firstly, changed their sales strategy from one of increasing market share to that of the pursuit of profitability and have reorganized their work by rationalization and new customization. The main forms of this work reorganization have been the pursuit of divisional organization, fragmentation of branch business, and the new-Taylorism of call centres. Mass customization has led to the pursuit of differentiated customer service, the use of new techniques such as CRM and CSS, and the diversification of service delivery outlets (see Section. 4.4.).

Secondly, human resource management in the banks (i.e. evaluation and pay systems, and recruitment and education methods) has also been dramatically revised. In summary, the changes regarding pay, evaluation, recruitment, and education/training are as follows: 1. the pay system and promotion policy has been changed from a traditional ones based on seniority to ones based on performance and ability. The form of performance pay has itself changed gradually, from one of collective performance bonuses to all employees to one of individual performance bonuses. 2. The method of performance evaluation employed by the bank has been transformed from one that entailed an admission (permission) method by relative evaluation, a one-side evaluation by superior officers, and input-oriented evaluation based on length of service and education, to a graduation (acquisition) method characterized by absolute evaluation, multi-side evaluation by superior officers, colleagues, and subordinates, and output-oriented evaluation by MBO. 3. Recruitment methods have changed from regular recruitment once or twice a year, either through newspaper advertisements or by promoting or transferring existing staff to irregular recruitment on demand, to advertising on the Internet and the increased usage of job agencies. 4. Education

methods have changed from in-house bank courses, job rotation, and OJT (in short, the cultivation of generalists), to cyber education, support of self-education (i.e. the cultivation of financial experts). In other words, the resultant HRM policies were mainly those associated with 'hard HRM'. In essence, bank management strategy changed from a long-term developmental perspective aimed at ensuring continued stability (thereby treating employees as assets) to the pursuit of a flexible approach which facilitated short-term profitability (thus treating employees as a variable cost).

Thirdly, the restructuring of the financial sector has seriously damaged employment security. There has been a huge reduction in the number of regular employees as many banks have been closed and merged, leading to many redundancies as the Government has restructured the sector and banks have sought to cut costs. The number of regular employees in the banking sector decreased from 113,994, in 1997, to 66,881, in 2002 (Table 4-10). In addition, the use of irregular employees has increased remarkably as banks, in their pursuit of a strategy of labour flexibility, have recruited them in order to fill the vacancies created by the departure of regular employees. As a consequence, the number of irregular employees increased from 15,043 to 22,951 during the same period (Table 4-10). It means that the era of lifelong employment in the banking sector has gone, and been replaced by employment insecurity.

Fourthly, faced with a steep rise in employment insecurity and changes of HRM policies as a result of restructuring, bank unions mounted a strong resistance. Trade unions in the banking sector changed the form of trade union from an enterprise union system to an industrial union; it was felt that an industry-wide union could more effectively represent the sector's employees in the new environment. This also had a direct impact upon the bargaining method, which shifted from single-employer bargaining to multi-employer bargaining. The change (centralization of IR) was a result of unions' great efforts and needs to respond effectively to restructuring conducted by the government. However, it was also possible because employers did not have any IR control or power in the historical restructuring and thought it easier to deal with the union's strong responses to restructuring by negotiating as part of a multi-employer group rather than as single banks. Furthermore, they were used to group negotiations, as that had been the norm for last three decades (Section 4.6.5.1).

Furthermore, the bank workplace, previously a strike-free zone, has become the site of industrial hostility as unions have sometimes felt that strikes are the most effective form of industrial action with which to fight mass redundancies. Bank unions have engaged in four major strikes (September 1998, July 2000, December 2000, and June 2003) in response to the restructuring of financial sector by the Government. Clearly, the tradition of stable industrial relations had come to an end and the epoch of confrontational industrial relations begun.

Lastly, since the financial crisis, the Government's industrial relations policy has shifted from a previously authoritarian one to corporatism in order to affect a smoother restructuring of the financial sector. As part of this transition, the Government established the Korea Tripartite Commission (KTC). The KTC has since played an important role as a mediator between the Government and unions during strikes

To sum up, since the national financial crisis of 1997, the employment relationship has changed from lifelong employment security to employment insecurity and HRM systems have changed from ones based on seniority and regularity to ones based on performance and irregularity. The industrial relationship has changed radically from symbiosis to confrontation (from moderation to militancy and from paternalism to restructuring) within the Korean banking sector. Nevertheless, there have been attempts to build new forms of industrial relations, such as industrial unionism, corporatism, and reorganizations of the workplace that meet the needs of the three main groups (labour, government and employers) in order to survive in the era of global competition. It is to be hoped that these new forms can be built on the foundation of the traditional symbiosis of Korean banking.

### **8.1.5. Generalizing to other cases**

#### **8.1.5.1. Reasons for success and failure of strikes**

The impact of OL on the effectiveness of strikes was investigated in relation to the actual content of learning and the strike strategy-making in each of the four strikes (see Chapter 7). Although the results show that the effectiveness of each strike was affected by the level of learning (and attitude) the union had achieved by evaluating previous strikes, it could be argued that the extent to which success or failure was attributable to learning was not conclusively established. Other factors, such as political opportunities

or unpredictable environmental changes (whether or not those are favourable), the ability of opponents to be able to utilize more effective counteractions, and other obstacles, such as internal union friction, may have also played a part.

Nevertheless, strike success is more likely to depend on strikers' effort and determination to use opportunities and to put into practice higher-level learning than on those other factors. For example, the existence of favourable political opportunities does not necessarily guarantee that a strike will be successful nor, conversely, does the existence of unfavourable opportunities necessarily lead to strike failure.

As examples, the union was able to gain a victory at the July 2000 strike as it had made great efforts to conduct higher-level learning while its failure in a strike later that year, in December, was due, at least in part, to its being content to repeat existing routines even though the political environment surrounding both actions had been similar. In the case of the strike in June 2003, one could argue that a main factor in the strike's success was a favourable political environment. However, in this case as well, the union was able to exploit that favourable environment because it had actively tried to conduct higher-level learning through thorough self-reflection and great efforts after the failure of the strike in December 2000. In other words, as the union actively made efforts to strengthen the industrial union system and its policy-making capacity, and to prepare itself to make better use of political opportunities and outside resources through the establishment and operation of such groups as the CP, the CWF, and the CU, it was able to then exploit those favourable opportunities and properly use those outside resources (i.e. fit to situation) when it went on strike.

Furthermore, even in the case of the September 1998 strike, when political opportunities were least propitious, if bank unions could have made more efforts to strengthen their unity before going on strike and if they could have learnt more thoroughly from other unions' strikes, thereby developing a more effective strategy (i.e. one that strengthened its weak organizational unity and exploited more opportunities and resources) better outcomes might have resulted; they might have avoided organizational secession during the strike and thus been able to overcome their opponents.

It should also be remembered that the innovative tactics of opponents can impact upon a strike's success or failure. In the case of the December 2000 strike, it can be suggested

that the strike failed because although the union had predicted the Government's bank large-sizing policy, it had not predicted that the policy would begin with mergers of healthy banks. However, even in this case, if the union leaders could have prepared proper alternatives to the opponent's (potential) innovative tactics and made more efforts to improve their members' understanding of their (potential) situations (they could meet) and strategies (for those situations) by conducting ceaseless higher-level learning processes (i.e. sharing the situations and alternatives with the rank-and-file: scenario planning) the union might have avoided defeat.

In the early stages of the dispute, union leaders were actually able to devise a proper and appropriate strategy by their intuition. Thus, the leaders succeeded in producing a provisional agreement with the Government before the strike. However, the leaders' intuition was derived from their own learning, not that of all the union's members (who had different interests and different strike experiences). In short, learning had not been shared by the leaders and the rank-and-file of KMB and HB. There was thus a failure to achieve a shared understanding of the union's strategy. (However, the leadership can argue that the union should be more flexible, sometimes proceeding with strike action after mobilizing the rank-and-file, sometimes demobilizing as the circumstances change; i.e. flexibility between times of mobilization of power and demobilizations retreating from conflict).

As a result, leaders could not persuade the rank-and-file members of KMB and HB to not strike. The union went on strike without a complete strategy as union members were under the illusion that they could win within two or three days. Instead, they tasted bitter failure. This can be attributed to the union's negligence (by both leaders and the rank-and-file) to conduct higher-level learning to prepare for forthcoming battles; this negligence derived from the over-confidence consequent upon the great victory at the strike of July 2000.

At this point, we need to refer to a case which utilizes a management strategy theory, scenario planning. In the 1990s, all oil companies were equally hard hit by the sudden oil price increase by OPEC, but Royal Dutch Shell responded to the unpredictable environmental change in a way that dealt effectively with it; it did this by scenario planning. Essentially, this consisted of trying to envisage what the best and worst case scenarios for the future might be and what sorts of factors might be critical in dealing

with them. Armed with a range of scenarios, and a range of strategic responses to deal with them, organizations could be more fleet-footed and nimble in responding to their environments than if they just assumed that the future was an extrapolation from the past (Ringland, 1998; Clegg et al., 2005: 425).

To sum up, if unions can conduct higher-level learning continually, therefore always being prepared for forthcoming challenges they are more likely to prevail in their battles. They will be able to develop effective strategies to fit the situations even if political situations are unfavourable and opponents deploy new tactics. However, conducting continuous higher-level learning is not easy. In fact, it is this very difficulty which lies behind the frequent failures of organizations and individuals.

For the generalization of the relationship between unions' success and OL, we need to look at cases in other countries in which unions have produced better results through upgrading their efforts in strikes or in response to membership decreases due to restructuring. For examples, firstly, there is Johnston's analysis of two strikes in California (1994). In his comparison of a strike by public sector female workers in San Jose in 1981 with a strike by private sector nurses in Santa Clara Valley in 1982 (both concerned with comparable worth), he argues that the difference in strike results is derived from the strikers' learning processes from their previous experiences. The former (despite its apparent weakness) was able to produce a successful result by a strategy of coalition-building with local communities and a delicate process of issue articulation<sup>106</sup> while the latter failed (despite of its apparent strength<sup>107</sup>).

According to Johnston, the demands and resources<sup>108</sup> of the city workers in San Jose were deeply shaped by the context within which the movement surfaced. The latter strike failed, however, because the claim to comparable worth in the private sector had relied on the use of legal power to regulate wage relations. Thus, workers in the latter should have made greater efforts to make new strategic orientations (or strategic fits) of the demand in their context (private sector). However, the grass-roots feminist impulse lent its force to a conventional economic strike (market-oriented appeal) in the nurses' strike (*Ibid*: 111-5) without the efforts of alliance-building.

<sup>106</sup> Asserting the value of the women's work through city politics and grassroots movements at neighborhood-based points of production.

<sup>107</sup> It was the longest and largest nurses' strike in Californian history.

<sup>108</sup> Including the campaign for comparable worth with the involvement in the broader patterns of coalition-building: "societal corporatism of the public sector".

In addition, the activists in the San Jose strike had had many experiences in previous campaigns on the subject of comparable worth, and had accumulated learning from other workers' actions, thereby reaping the lessons of a decade of militancy while those in Santa Clara Valley had not had such processes and experiences. In short, the San Jose workers' strategy development was derived from their earlier scripts and experiences; they were able to fashion new strategies in response to their own sometimes painful experiences and to changing opportunities (Ibid: 212-3).

Secondly, we can compare strikes organized by the National Farm Workers Association (NFWA) and ones organized by the Agricultural Workers Organizing Committee (AWOC in AFL-CIO) in the 1960s in California (Taylor, 1975; Ganz, 2000). The former succeeded (despite having a lower strike fund and fewer professional staff) while the latter failed despite strength in both of those areas.

According to Ganz (2000), due to the lack of aforementioned resources, the former actively pursued coalition-building with communities, (such as local churches, Mexican communities, human right organizations and local students), submitted an application for an Office of Economic Opportunity grant to fund the strike, developed a proper strategy (focusing on union recognition rather than wage increases, opting for non-violence, and choosing a policy of risk sharing by everyone), and deployed various tactics (such as roving picketing and a march to the company headquarters in New York). These strategies and tactics were developed as a consequence of learning how to survive by relying on volunteer resources (Ganz, 2000: 1032).

In addition, in a deliberative process to which the NFWA turned frequently when faced with critical choices, the best way to give a sense of the creative process – and the interaction of people and ideas central to it – was to learn from other union's strikes (such as that of the New Mexico miners who had travelled to the company headquarters in New York and the failure of the AWOC in Imperial Valley).

On the other hand, the AWOC's tactics were to maintain traditional picket lines at the companies at which it had struck, to keep its members occupied and to make sure none of them returned to work. This traditional approach was adopted because its strategy was just to increase members' wages and to isolate itself from outside involvement in

order to avoid costly legal entanglements (Taylor, 1975; Ganz, 2000: 1024-38). Such strategy and tactics, depending on traditional methods and risk evasion, were typical of lower-level learning.

In short, the AWOC, relying on AFL-CIO financial support adequate for its limited objectives, saw no need to change while the NFWA made great efforts to increase its access to information, enriched its heuristic facility, and deepen its motivation by transforming the organization and its leadership in order to overcome its limitations (Ganz, 2000: 1035). In other words, the former depended on routine derived from passive learning while the latter, using positive learning, actively endeavoured to change its norms and organization, thereby improving its strategic capacity. Although Ganz argues the success of the NFWA derived from its better leadership and organizational structures, the improvement of leadership and organization's strategic capacity derived from positive learning attitudes from the past cases.

Thirdly, there are many cases of union revitalization in response to membership decreases. Some of these include: 1. the American unions were engaged in an aggressive effort to improve significantly their organizing capacity and success for the 1990s, despite a rapidly deteriorating economic, political, and legal climate. They invested staff and financial resources into organizing, mobilizing leaders and members to support the organizing campaign, and developing and implementing more effective organizing strategies and tactics. Formal programmes launched by the AFL-CIO and individual unions have included the creation of the Organizing Institute in 1989, the launching of the Union Summer and Union Cities programmes in 1996, and the Justice for Janitors programme. Initiatives of these programmes and campaigns have included the restructuring of organizing departments, the appointing of more specialist organizers, the drawing of lay activists into organizing activity, and the launching of training programmes. The main focus of organizing has been the expansion of unions' job territories in response to declining memberships. Unions have therefore targeted a wider range of potential members, such as low wage, immigrant, and non-standard contract workers. The organizing campaigns sought majority support and used a variety of, often imaginative, tactics to contact, persuade, collectivize, and mobilize workers. Occasionally, they engaged with the wider community, and involved coalition-building with other organizations. The primary method, however, was for unions to organize collectively, often in the face of intense employer opposition (Heery and Adler, 2004:

48). As a result, for the first time in decades, they (i.e. American unions) attracted as many new workers as were lost from lay-offs, plant closings, decertification and contracting out (Bronfenbrenner et al., 2003: 32).

2. British unions have also been engaged in organizing campaigns. Thus, there has been the creation of the TUC's Organizing Academy, the pursuit of mergers between unions, extension of union services such as legal and financial services (e.g. union credit cards, union-brokered insurance schemes and mortgages), and the offer of new bargaining formulas such as partnership agreements, single-union agreements and pendulum arbitration offered to employers (Jefferys, 1996: 181-2). As a result, they have succeeded in maintaining approximately 30 percent union density since 1990 while the union density in many other countries has constantly decreased.

3. Spanish unions were highly involved in political exchanges with the government regarding to the social pacts that granted them a voice and some influence in deciding on the contents of labour market and social policy reforms. The union power (to be able to do those) was derived from the strategic use of the general strikes in the 1990s that made unions re-established as legitimate and important social actors. "This participation in social pacts has been facilitated by the unions' distance from the leftist parties (unions' traditional political allies) and a pragmatic relationship with all major parties as well. Thus, the political actions have played a major role in the revitalization of unions in Spain" (Hamann and Kelly, 2004: 103). The union density in Spain increased from 5.7 percent in 1980 to 13.3 percent in 1997 (Behrens et al., 2004: 19).

The variety of strategic options available to unions throughout the world has been bounded by external and internal environmental constraints and by the character and scope of existing union services, by their existing and potential national memberships, and by their own ideologies, histories, politics and cultures (Jefferys, 1996: 181). Nevertheless, the examples show that unions can produce better results when they make great efforts to device successful survival strategies and live up to their actions through the changes of routines and organizational structures.

#### **8.1.5.2. OL in unions**

This case study of the KFIU showed that the union conducts OL through four processes, interpreting, integrating, institutionalizing, and intuiting. In addition, this case study of

four strikes confirms that unions occasionally conduct higher-level or lower-level learning levels according to their learning attitude, and that there are facilitators and inhibitors of learning in unions. The content of learning might be regarded as the typical learning content of democratic or dialogical organizations which operate from the bottom up, such as political parties or Non Government Organizations (NGOs). However, the processes of OL sometimes tend to be used just as the processes of communication in unions, thereby not embedding in organizational memory members' discoveries, inventions, and evaluations. If such embedding of OL in organization does not occur, individuals will have learned but the organization will not have done so (Argyris and Schön, 1978: 19).

Moreover, if leadership does not have the ability to conduct OL or if the organization does not hold regular meetings for communication, or has a top-down form of resource flow, or has poor constituency accountability the organization will probably not be conducive to effective learning processes. Ganz argues (2000: 1019) that organizations' learning might also be influenced by other factors, such as differences in leadership ability or organizational structure. He argues that an organization could develop an effective strategy if the leaders access salient information, employ heuristic processes, and demonstrate deep motivation; this requires that its leaders have diversity of experience, strong ties to constituencies (or diversity of ties), and diversity of repertoires, and that the organization has deliberative processes, facilitates resources flow and has accountability structures.

In addition, the learning processes may be affected by the use of influence on interpretation, the use of force on integration, the use of domination on institutionalization, and the use of discipline on intuiting. Lawrence et al. (2005: 188) argue that influence is useful to overcome the ambiguity and uncertainty associated with interpretation, that force facilitates the accomplishment of collective action in the integration process, that domination overcomes potential resistance to change and thus supports institutionalization, and that discipline supports the development of the expertise that is necessary to foster intuition (see Section 6.3.6.2).

#### **8.1.5.3. Changes in industrial relations**

This research showed, in detail, what is entailed in the reorganization of workplaces and the changes of employment and industrial relationships in the Korean banking sector

due to the restructuring that has followed since the 1997 national financial crisis. The changes have been as follows: the employment relationship has changed from lifelong employment security to employment insecurity (and HRM systems based on seniority and regularity to systems based on performance and irregularity) while the industrial relationship has changed from symbiosis to confrontation. In addition, the Government began to experiment with corporatism by the KTC in order to conduct restructuring smoothly.

Although the restructuring was most immediately linked to the national financial crisis it was actually influenced by globalization. Therefore, workplace reorganization and changes in the employment and industrial relationships are part of a global trend in the banking sector.

However, there has been a Korea-specific trend in the change of industrial relationship in the banking sector. That is, unlike in Western countries where there has been a trend towards decentralization in bargaining in the banking sector, in Korea there has been a trend towards centralization. Korean bank unions transferred their union form from enterprise unions to an industrial union in order to respond more effectively to the restructuring. By thus establishing stronger solidarity they were able to gain better outcomes from strikes and collective bargaining. Such an approach can be explained by examining the different histories of industrial relations between Korea and Western countries. Korean trade unions, for a long time restrained by the Government into enterprise unionism, had looked forward to the industrial unionism for the extension of union power.

The transformation from enterprise unionism to industrial unionism advanced greatly in the four-year period between 1998 and 2002 as a result of the national financial crisis. In that time, 17 new industrial unions were formed. Most of these were formed by merging existing individual enterprise unions. The combined membership of these industrial unions reached 31.4 percent of total union membership in Korea in 2002; it had been only 6.2 percent in 1997 (Table 3-6). This trend is probably unique in a period characterized by the spread of globalization.

## **8.2. Academic and practical implications**

### **8.2.1. Academic implications**

The research findings have some academic implications. First, this research reveals the relationship between union learning (and learning attitude) and mobilization outcome (Chapter 7 and Figure 7-5). The case studies, the four KFIU strikes, confirm that the outcomes of strikes were affected by the union's learning level (higher or lower) or attitude (e.g. positive or negative) obtained from previous strike experiences. In other words, when the union carried out higher-level learning (or positive learning), such as overall changes of norms and rules, by self-refection it was able to improve its strategic capacity, therefore developing a better strategy. This, in turn, led to successful outcomes from strikes. On the other hand, when the union carried out lower-level learning (negative learning), such as repetition of routines, or felt over-confidence after success, strategic capacity was decreased, leading to a less effective strategy. Consequently, the union failed to gain successful outcomes from its next strike (Figure 7-1).

Therefore, the findings of this research can help to explain a union's success or failure in any given strike, and can thus contribute to mobilization theory. It can do so because mobilization scholars of social movements, in their explanations of outcomes of social movements, have so far usually depended on variations in resources and opportunities (McCarthy and Zald, 1973, 1977; Tilly, 1978; Evans, 1980; McAdam, 1982; Morris, 1984; McAdam. et al., 1996). However, they have failed to explain why one organization may be able to utilize more effectively political opportunities, mobilized resources, and collective actions while another, which is similarly placed in terms of resources and opportunities, fails to do so. To answer this, Ganz (2000) argued that an organization could develop the more effective strategy than another, if its leaders can access salient information, employ heuristic processes, and demonstrate deep motivation. All of these factors are affected by differences in leaders' life experience, networks, and repertoires, and organizations' deliberative processes, resources flows, and accountability structures. If leaders do as Ganz suggests, the organization is more likely to succeed. However, his argument also possesses the same limitation that was identified above; that is, it does not explain why same (or similar) leaders of same (or similar) organizations can still either succeed or fail, albeit occasionally in the case of

the latter. Thus, this research finding extends Ganz's argument. This research shows if a union's leaders and lay members could engage in positive learning from their previous experiences their strategic capacity would increase and the union is more likely to succeed in the next strikes.

Secondly, this research finding supports "the organizing model" of union revitalization. The main content of the organizing model is identical with that of OL, as in the model, unions try to adapt in response to such challenges as a decline in union membership and attacks by employers through attempting to make sea changes in their functioning and structure and constant re-evaluation (Diamond, 1988: 6; Schenk, 2003: 247; Section 6.3.6.1). The KFIU case study demonstrates this identity of OL and the organizing model (See the Tables 7-1 and 7-2). Behrens et al. argue that the effectiveness of union revitalization depends on unions' efforts to make right strategic choices (2003: 24-5).

Thirdly, this research exposes the mechanism of learning processes in union organizational structures (Figure. 6-4; Section 6.3.6). This has not been done before although Crossan et al. (1999) argue that the learning processes that operate in organizations (in a general sense) are interpreting, integrating, institutionalizing, and intuiting. The case study of the KFIU illustrates clearly the learning processes regarding mobilization (see Chapter 7, Figure 6-4). Therefore, this research can contribute to OL theory of democratic organizations, such as unions, NGOs, and political parties, in which decision-making is conducted by bottom-up processes.

Fourthly, this research represents the first systematic study of changes in industrial relations (including work reorganization) in the Korean banking sector since the national financial crisis in 1997 (Chapter 4). This study has revealed how mass restructuring by the Government has influenced bank workplace reorganization and led to changes in employment and industrial relationships; it has also detailed how unions have responded to the restructuring. Thus, this research supplements the literatures of restructuring and employment relations.

Lastly, this case study of four strikes presents a series of historic banking sector strike stories to the world of industrial relations literature for the first time. The strikes are, as far as we are aware, unique and the biggest ever in the world-wide banking sector. In addition, the strategies and tactics that the bank unions developed and deployed

regarding the mobilization of resource, the use of political opportunities, and the use of various collective actions, were very interesting and without precedent. For example, first, the deployment of 500 Cyber fighters, the cutting of hair by 4,000 members, the delivering of all employees' resignations to the President, the staging of a sit-in strike at bank headquarters, the use of mobile phone technology and the Internet for the communication of the union's orders to members, the distribution of 1,000,000 union leaflets to citizens, the use of shareholders, the use of a university's stadium as a strike venue in July 2000 (30,000 members attended a rally on the eve of the strike), and the use of the Presidential Primary Election in the case of strike on June 2003, are all innovative internal mobilization tactics. Secondly, in an original response to the wrong policy of an international institution, the union brought a lawsuit against the IMF. Thirdly, as examples of union resolve, in the December 2000 strike, four union leaders were imprisoned (two for one year, one for eight months, and one for two months) and 25 others received fines, while in the June 2003 strike, four were imprisoned for one month and two were fined. All of the above qualities of innovation and determination can serve as examples and an inspiration to other unions around the world considering strike action.

### **8.2.2. Practical implications**

Assessing the influence of learning on the effectiveness of strikes is the main interest of this research. Thus, union leaders (practitioners) need to recognize, in a concrete way, the importance of higher-level learning on mobilization. This research reminds union leaders of three facts. First, a union is more likely to succeed in strike action when it can gain higher-level learning, such as meaningful changes of norms and organizational structures, from previous strikes. Secondly, a strike is more likely to succeed when it can maximize the mobilization of resources (internal and external) and political opportunities. Thirdly, the possibility of mobilization success depends on whether or not the union utilizes OL through four dialogical processes, interpreting, integrating, institutionalizing, and intuiting. This OL process in unions is indispensable because the union is a dialogical organization. For example, the case of the December 2000 strike confirms that unions can fail if the leaders and the rank-and-file do not learn together through the dialogical processes.

Offe and Wiesenthal (1985: 184) argue that unions' strike mobilization capacity has to be built up in a communicative process within the unions, whose individual potential to sanction is minimal because of their atomization. It means that sanctioning potential in unions becomes effective only through the organized members and their explicitly coordinated action. Thus, what unions need is the conscious and coordinated active participation of their members, including, as a final resort, the willingness to go on strike. In other words, sanctioning potential in unions depend on their ability to generate their members' willingness to act. For successful mobilization, it appears reasonable for unions to maximize membership because by so doing it maximizes the resources that are available to it as well as supposedly minimizes internal competition among those who are members.

These three facts provide union leaders with a useful insight into what unions should do in order to achieve successful results in strikes. Union leaders should do their best to gain higher-level learning from previous experiences through dialogical processes in order to maximize mobilization of resources and opportunities, thereby raising the possibility of strike success. In addition, as a useful practical tool, union leaders could make a model (check list or modus operandi) for successful strikes.

The model should be able to check the possibility of strike success through checking the level of OL in the union and the degree of the possibility of mobilization of resources (internal and external) and political opportunities. As a result of this checking, union leaders would be better able to assess situations and identify what still needed to be done, how long they could continue the strike action, and how to use the strike as part of the bargaining process. The model could thus be helpful in minimizing costs incurred as a consequence of hasty or ill-planned strikes. It is a form of SWOT analysis (see Section 6.2.1). Furthermore, unions now need to learn how to do 'scenario planning' in order to prepare for and prevail in future challenges. Scenario planning helps members and leaders learn to recognize the future uncertainties in their operation environments. By participating in the scenario building process, they can understand today better by imagining tomorrow, increasing the breadth of vision and enabling them to spot change earlier (Ringland, 2002: 4-5).

The case study of union learning (discussed in Chapter 7) could be a good model for other unions that have to mobilize resources and opportunities in order to succeed in accomplishing their stated interests.

### **8.3. Limitations at the research and implication for future research**

The research is subject to some limitations with respect to research methodology and scope. Firstly, the research has been conducted in a specific period (the period of restructuring of the financial sector by the Korean Government). Moreover, as cases in a specific industry (in a specific country) are selected it is difficult to distinguish between sector effects and country effects. If we had looked at various sectors, various periods, and various countries we would have obtained a mere nuanced pictures. Locke and Thelen (1995: 344) in examining key challenges to trade unions in few countries liken their work to the comparison between apples and oranges because "the specific struggles we analyze are manifestly quite distinct". Secondly, the issues we have sought to address here are limited to the impact of learning on the effectiveness of mobilization. Thus, if the research had encompassed more aspects affecting the effectiveness of mobilization the outcomes of the research would have been richer and better.

Lastly, there were the shortcomings of the way in which the contents of OL in the union were measured. As the research focused on the processes of OL in unions related to mobilization, interviews were limited to union officials and active rank-and-file members who had participated in strikes. Moreover, the content of debates within union meetings (such as the NC, the CC, and branch meetings) was not thoroughly enough investigated or described in order to be able to let the reader get a sufficiently strong sense of the integration part of OL in unions. This was because the unions did not generally make detailed records of debates; instead, only note summaries of debate outcomes appeared in union reports. Thus, if union members not directly involved in strikes or passive in union activities had been interviewed to supplement the measurement of the effects of OL and more interviews had been conducted to dig out the detailed content of debates on significant issues in union meetings the research would have been much persuasive.

These limitations raise a number of issues for future research; these are as follows. First, we would need to look at the impact of union learning on the effectiveness of mobilization in a manufacturing sector (in the same period of restructuring). The automobile sector, for instance, is of a similar size to the banking sector. Such a comparison might reveal differences between sectors (i.e. the sector effect).

Secondly, we would need to look at the impact of learning on strikes held in 'normal' (non-restructuring) periods in order to ascertain the effect of general issues, such as demands for wage increases or improvement of working conditions. Such a study would identify issue effects (and period effects).

Thirdly, comparative research between countries that have different cultures of industrial relations and are at different level of economic development could expose differences between countries (or country effects).

Fourthly, we need to look at different reasons that influence the effectiveness of mobilization. For example, if opponents develop better strategies as a result of higher learning, or if unpredictable obstacles occur due to environmental and political changes, or if there are other internal (i.e. within the union) reasons, such as internal conflicts, the effectiveness of mobilization might be altered regardless of the impact of higher-level learning conducted by unions.

There have been two special occasions in Korea in which strike effectiveness was influenced by political and environmental factors. First, in 1987, when the so-called "Great Labour Struggle" occurred, a political factor (the sudden extension of political democratization following a civilian revolution, known as the "June Revolution") led to the creation of many new unions. Strikes called by these unions proceeded without the unions being able to call on the learning that could have been gained from previous experience. Nevertheless, almost all of them were successful, chiefly due to this being a politically favourable period. Secondly, in 1998, when restructurings were conducted in almost companies due to the national financial crisis, many unions again took strike action. However, few of them could produce effective outcomes despite a wealth of strike experience. Regarding opponents' developing of better tactics for counteraction, we need to recall McAdam's argument that described in Section 6.2.3:

The pace of insurgency comes to be crucially influenced by (a) the creativity of insurgents in devising new tactical forms, and (b) the ability of opponents to neutralize these moves through effective tactical counters. These processes are an ongoing process of tactical interaction in which insurgents and opponents seek, in chess-like fashion, to offset the moves of the other. How well each succeeds at this task crucially affects the pace and outcome of insurgency (McAdam, 1983: 736).

Fifthly, we need to look at the long-term effectiveness of mobilization. Unions can fail to achieve anything substantial through strikes even when they have succeeded in mobilizing their members; the December 2000 strike is an example of this. However, the strike may still be effective in the long term. Although the KFIU failed in the December 2000 strike against the Government, it was afterwards able to maintain a superior position during negotiations (because of its proven ability to mobilize its members at any time) with employers regarding general issues, such as wage or working conditions. In addition, the strike failure forced the union to learn (at a high and detailed level) from its mistakes in order to improve its chances of success at the next strike (which took place in June 2003). In other words, learning often happens through a trial-and-error process in which mistakes and failure provide the richest source of learning (Clegg et al., 2005: 362).

Lastly, this research relied exclusively on qualitative research methods, and involved a study of a single organization. It assumed unidirectional causality, with a small number of mediating variables, and two levels of and four processes of learning. For better balance in future investigations of the effect of OL on mobilization, what is needed would be a parallel research design balanced between quantitative and qualitative approach (including more balanced interviews including rank-and-file strike non-participants).

Mann argues that by the experience of solidarity at strikes workers recognize in a very concrete way the power that will eventually lead to collective control by the workers. That is, the workers learn how to make the connection between their own collective action and plausible alternatives through the experiences of strikes. Consequently, the workers' experiences extend the effectiveness of future mobilization (1973: 46-7).

Through this thesis we can confirm the importance of higher-level learning from previous strike experiences. However, a majority of unions have not experienced

strikes. Thus, how can they gain the higher-level learning necessary for success in their future strikes?

On the basis of my experience, I can suggest an alternative way for unions to learn. This is by actively participating in other unions' strikes as well as the study of other strikes of success and failure ('benchmarking'). Such experience can be obtained by assisting at strikes and contributing to all activities (e.g. mobilization and strategy). By doing so, unions can also experience strikers' agonies and directly observe (and learn from) their trials and errors. Whether the strikers fail or succeed the helpers (i.e. union activists not actually on strike) will gain some positive learning from the strikes, thereby improving their own strategic capacity for future actions. It is a comparable logic to that employed by the many countries which dispatch their armies to other countries' wars (i.e. as allied forces).

The bank workers' mobilization depended in part on invariant features of the Korean banking sector, in part on the unique historical conditions faced by the workers and their employers, and in part on the learning processes of labours. Thus the combination of explanations offered in the thesis is inherently unstable and certainly limited in its relevance to future trends. Neither the competitive environments nor political developments will impact directly on a new pattern of IR in the banking sector. Once again, the learning process of IR actors will be decisive factors (Johnston, 1994: 223).

Unions constantly face the challenge of adapting to changing conditions. Thus, behaviours institutionalized under earlier conditions may not fit conditions today. Among the legacies of the past are defensiveness and reactivity bordering on passivity among some unions leaders and members. The unions will not be well served by a stance that defends the present position at all costs. The most effective unions may be those that link their interests to the public (or social) interests (Ibid: 224). Allan Flanders's cry (1970: 15-6), "unions have to act as a sword of justice as well as a vested interest", has to be kept constantly in mind by the union movement.

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