

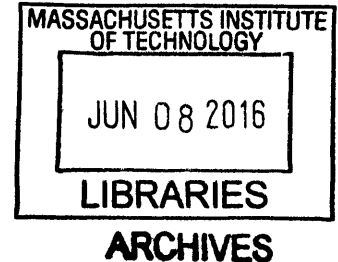
Strategic Human Resource Management Framework for Korean Small and Medium Enterprises' Sustainable Growth

By

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Master of Business Administration
Seoul National University, 2016

Bachelor of Business Administration
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SUBMITTED TO THE MIT SLOAN SCHOOL OF
MANAGEMENT IN PARTIAL FULFILLMENT OF THE
REQUIREMENTS FOR THE DEGREE OF
MASTER OF SCIENCE IN MANAGEMENT STUDIES
AT THE
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ABSTRACT

As Small and Medium Enterprises in Korea play a pivotal role in Korean economy, their sustainable growth is critical for Korea's development. One of drivers that enable SMEs to pursue sustainable growth is Human Resource Management. Since "People" is one of the most valuable assets in a company, its survival could depend upon strategic utilization of human resource. Korean economy has a Chaebol conglomerates centric business structure where Small and Medium Enterprises are difficult to compete with them for their survival. Especially, the human resource-related issues are the most significant and urgent for them to solve. Therefore, I would like to suggest possible and feasible strategic Human Resource Management framework for Korean Small and Medium Enterprises for their sustainable growth. In this thesis, the points that I will be focusing on are: i) Analyzing on Korean SME's problems on HRM ii) Deriving lessons from successful HRM cases iii) Coming up with Strategic HRM Framework that Korean SMEs can apply.

1. Do successful corporations have their unique Human Resource Management strategy?
2. How can Korean Small and Medium Enterprises acquire human resource-related core competency within Chaebol conglomerates-centered economy in Korea?

To find answers to these questions and to develop a proper Human Resource Management Framework for Small and Medium Enterprises, case studies on Talent Management Wheel, Hidden Champions, and Yuhan-Kimberly were used as examples of successful Human Resource Management. In this case studies, it became clear that one of the key drivers for successful companies is a well-organized Human Resource Management system. Lastly, I conclude by suggesting a strategic Human Resource Management framework that Korean Small and Medium Enterprises can adopt for their sustainable growth and the significance of successful Human Resource Management system that creates invaluable virtuous circles in the society.

Thesis Supervisor: Juanjuan Zhang

Title: Epoch Foundation Professor of International Management and Professor of Marketing

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Youngsoo Bae
Cambridge, MA

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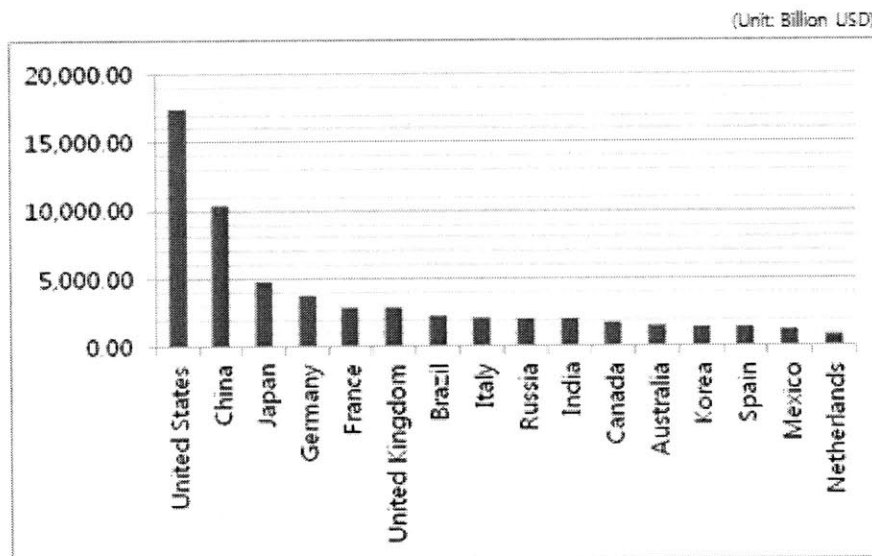
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CHAPTER 1. Introduction

1.1 The Miracle on the Han River

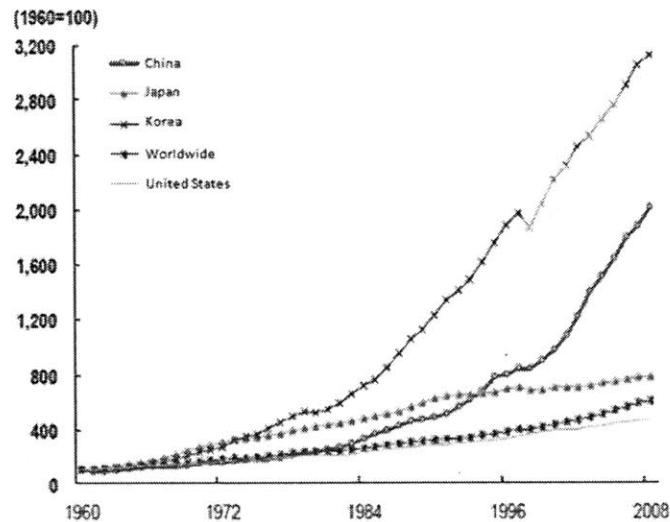
Development of Korea from its 1980s to 2000s showed unprecedented growth in world history. After the Korean War, Korea had been damaged severely, losing most of its infrastructure. GDP per capita in 1953 was only \$66 USD and Korea had been under United State's aid. In 2014, nominal GDP of Korea went up to \$1.45 trillion USD and ranked as the 13th highest country in terms of GDP worldwide. Korean economy has been growing in colossal size and with incredibly rapid speed. For the 50 years from 1960 to 2010, Korean real GDP in 2010 had been grown about 31 times bigger than that in 1960 whereas world's real GDP had been grown by only about six times. The amount of export from Korea also has been increased to \$526 Billion USD in 2015, taking 6th highest position worldwide.

Figure 1: Nominal GDP Worldwide in 2014



Source: International Monetary Fund

Figure 2: GDP Growth Trend Comparison



Source: Dong, 2012

What would be the key successful factor for this extraordinary growth of Korean economy? Successful economic plan executed by President Park would be one of the key drivers for Korean rapid growth. Starting from light industry, Korean economy expanded its area to heavy chemical industry focusing on exporting. Between growth and distribution, Korean government chose the former as an economic development policy. Therefore, conglomerates such as Samsung and LG had grown enormously with government assistance during this era. The role of Chaebol conglomerates in developing Korean economy was essential and significant. However, the contributions from Chaebol conglomerates were not enough to make the success. In other words, Korean economy could be developed to this much of size with unimaginable speed because there were tremendous supports from Korean Small and Medium Enterprises.

1.2 Significance of Korean Small and Medium Enterprises

Small and Medium Enterprises have high potential and business models in new industries to improve the quality of the entire industry, and take a lead in developing innovative technologies.

Many start-ups with creativity generate new ideas that advance improvement in productivity and quality, making huge contributions to the society. (E.D. Hdlander, 1968) According to the article of the constitution of the republic of Korea, government should protect and foster Small and Medium Enterprises in Korea, and ensure and support their right for autonomous business activities. (Small and Medium Business Administration, 2000)

1.2.1 Definition of Korean Small and Medium Enterprises

To be involved in the category of Small and Medium Enterprises, there are some criteria that a company must be met.

➤ Criteria in Size

According to the companies' industries, they should meet the criteria in size in terms of average revenue for the past three years.

Figure 3: Criteria of Korean Small and Medium Enterprises

Criteria of Small and Medium Enterprises in Korea (as of year 2016)

Industry Sector	Sales Criteria (KRW Won)
Clothing, Leather, Shoe manufacturing, Pulp, Paper product manufacturing, Electronic equipment manufacturing, Furniture manufacturing, 1st-tier metal manufacturing	Average sales worth KRW 150billion or less
Farming, Fishing, Mining, Food, Tobacco Textile, Wood, Chemical, Rubber, Plastic Metal-processed product, Computer-related business, Automobile, Utility construction, Wholesales, Retail stores	Average sales worth KRW 100billion or less
Beverage, Printing, Medical Material, Non-metal product, Waste disposal, Transportation, Broadcasting	Average sales worth KRW 80billion or less
Technology service, Business supporting service, Social welfare, Leisure service, Repair service	Average sales worth KRW 60billion or less
Accomodations, Restaurants, Finance Insurance, Real estate, Rental service, Education service	Average sales worth KRW 40billion or less

Source: National Law Information Center

Also, the size of the companies' total asset should be lower than KRW 500 Billion won.

➤ **Criteria in Independence**

- Companies should be free from Cross-investment Restriction Business Groups or Debt Guarantee Limit Business Groups
- The biggest investor that holds more than 30% share of the company should not be a corporation with a total asset value of more than KRW 500 Billion won.
- If the companies have subsidiaries or a parent company, average revenue reflecting the related companies according to share ratio should meet the criteria in size.

1.2.2 Characteristics of Small and Medium Enterprises

According to A.D.H Kaplan, there are some characteristics of Small and Medium Enterprises as below. (Kaplan, A.D.H, 1948)

- i) Ownership and Management is not separated in Small Businesses: in most cases, a few owners take in charge of management
- ii) The sources for financing mainly depend upon credit, bank loan, or retained earnings not from issuance of stock or corporate bonds.
- iii) Small Businesses usually have a close relationship with the region where they primarily operate the companies.

Also, Eugene Staley and Richard Morse suggested four traits for small industry as below. (Eugene, S., & Richard, M, 1965)

- i) Relatively little specialization in management
- ii) Close personal Contacts

iii) Handicaps in obtaining capital and credit

iv) Sheer numbers of small industry units

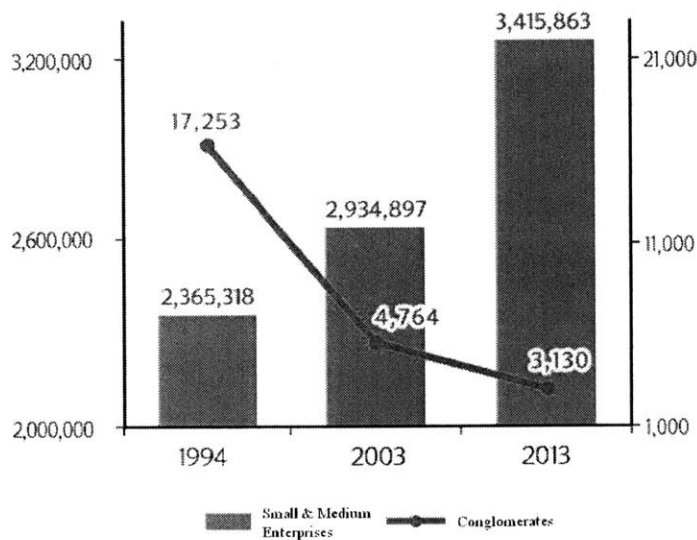
1.2.3 The Status Quo of the Korean Small and Medium Enterprises

The role of Small and Medium Enterprises in Korean economy is of great importance. Their impacts on Korean society are as below.

➤ **The composition of the entire industries**

The portion of the Small and Medium Enterprises accounts for 99.9% of the total corporations in Korea, numbering about 3.42 million companies. On the other hand, the portion of conglomerate is only 0.1%, numbered 3,130 in 2013. The number of Korean Small and Medium Enterprises has been increasing, 2.37 million companies in 1994, 2.93 million companies in 2003, and 3.42 million companies in 2013. On the contrary, the number of Chaebol conglomerates has been decreasing, 17 thousand companies in 1994, 4.8 thousand companies in 2003, and 3.1 thousand companies in 2013.

Figure 4: Number of Enterprises of Conglomerates and SMEs



Source: Statistics Korea

➤ **Crucial Role in Job Creation**

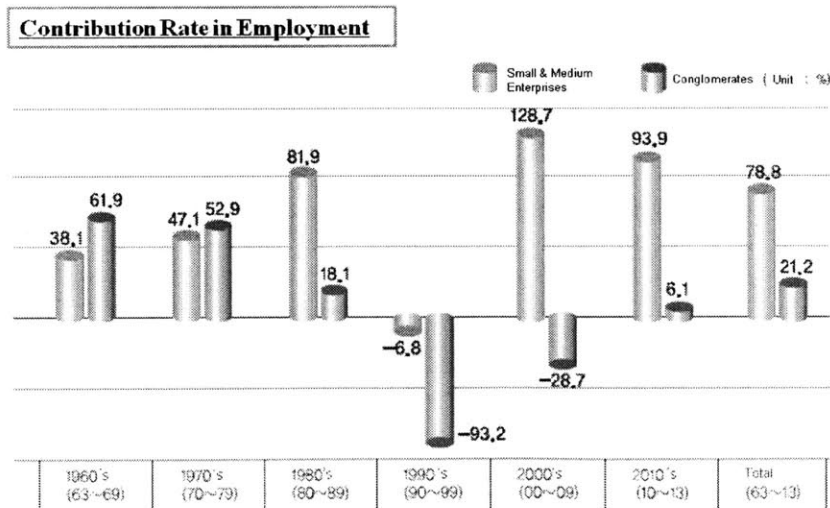
One of essential roles of Small and Medium Enterprises is job creation. They make humongous contributions on improving Korean employment rate. The number of employees in Small and Medium Enterprises is 13.4 million, covering substantial portion of the entire employment, 87.5% while the number of employees in Chaebol conglomerates is 1.9 million, covering only 12.5% of the total employment. Contribution rate for the employment makes the gap between Small and Medium Enterprises and Chaebol conglomerates even larger. About 94% of employment contributions were made from Small and Medium Enterprises and Chaebol conglomerates took up only 6% of the total employment contributions in 2010s.

Figure 5: Number of Employees of Conglomerates and SMEs

Number of Employees			
	1994	2003	2013
Total Amount in Manufacturing Industry	10,217,910	11,870,358	15,344,860
Small & Medium Enterprises	7,677,089	10,308,574	13,421,594
Portion	75.1%	86.8%	87.5%
Conglomerates	2,540,821	1,561,784	1,923,266
Portion	24.9%	13.2%	12.5%

Source: Statistics Korea

Figure 6: Comparison of Contribution Rate in Employment



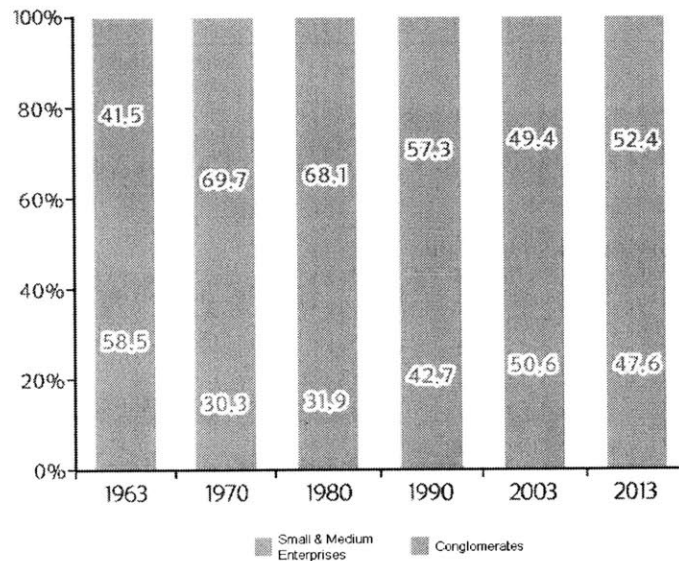
Source: Korea Federation of Small and Medium Business, 2015

➤ **Production Output in Manufacturing Industries**

The amount of production that Korean Small and Medium Enterprises have manufactured in 2013 is about KRW 740 trillion won, accounting for 47.6% of the entire production output. Chaebol conglomerates have made total production in 2013 about KRW 814 trillion won, accounting for 52.4% of the total production output. The portion of Korean Small and Medium Enterprises with respect to production output has been increasing from 30.3% in 1970s.

Figure 7: Production Output Comparison between Conglomerates and SMEs

Production Output		<small>(Unit: 100MM KRW)</small>					
		1963	1970	1980	1990	2003	2013
Total Amount in Manufacturing Industry		1,669	13,345	362,791	1,773,088	6,720,605	15,538,345
Small & Medium Enterprises		977	4,037	115,709	757,130	3,402,313	7,398,595
Portion		58.5%	30.3%	31.9%	42.7%	50.6%	47.6%
Conglomerates		692	9,308	247,082	1,015,958	3,318,292	8,139,750
Portion		41.5%	69.7%	68.1%	57.3%	49.4%	52.4%



Source: Statistics Korea

➤ **The amount of created Added-Value in Manufacturing Industries**

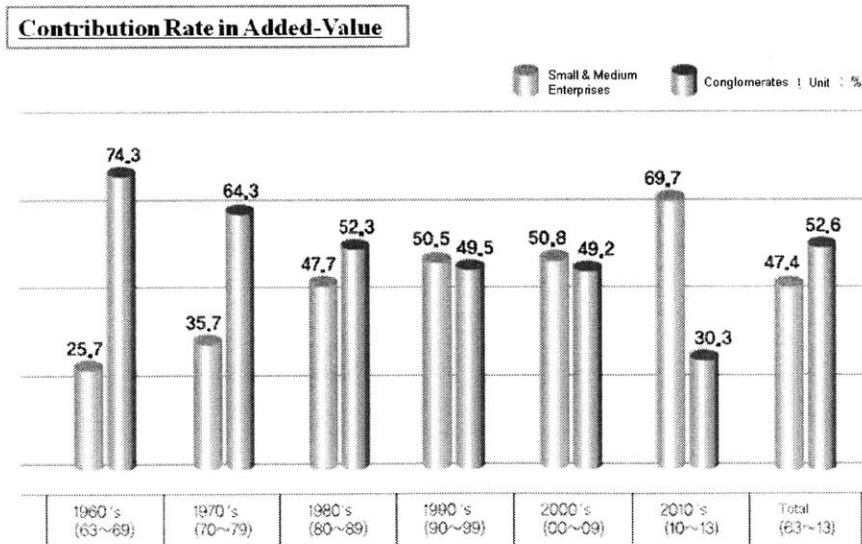
In 2013, the amount of total added-value in Korea was KRW 501 trillion won. 49.5% of the entire added-value was created by Small and Medium Enterprises, and the rest, 50.5% of the total added-value, was generated by Chaebol conglomerates. In terms of rate of added-value contributions in developing Korean economy, it became much clear to tell the influence of Small and Medium Enterprises on Korea economy in 2010s. Almost 70% of added-value contributions were made from Small and Medium Enterprises and Chaebol conglomerates made up only 30% of the total added-value contributions.

Figure 8: Added-Value Comparison between Conglomerates and SMEs

Added-Value		(Unit: 100MM KRW)					
		1963	1970	1980	1990	2003	2013
Total Amount in Manufacturing Industry		615	5,498	118,566	709,245	2,544,090	5,013,491
Small & Medium Enterprises		325	1,566	41,683	314,318	1,342,563	2,481,834
	Portion	52.8%	28.5%	35.2%	44.3%	52.8%	49.5%
Conglomerates		290	3,932	76,883	394,927	1,201,527	2,531,657
	Portion	47.2%	71.5%	64.8%	55.7%	47.2%	50.5%

Source: Source: Statistics Korea

Figure 9: Comparison of Contribution Rate in Added-Value



Source: Korea Federation of Small and Medium Business, 2015

With all the figures above, it seems reasonable to say that Small and Medium Enterprises are the props that robustly support the Korean economy. In short, the contributions of Korean Small and Medium Enterprises on Korean economy are getting more significant. To have core competencies that cannot be imitated from others, they need to be proactive in improving Human Resources-related processes with confidence.

1.3 Human Resource Management

1.3.1 Characteristics of Human Resource Management

There are two types of assets that a company can utilize to make a profit: tangible and intangible asset. Human Resource is a typical example of intangible asset even though it will not be reflected in the financial statement since Human Resource is immeasurable. However, it has a huge influence on companies' sustainable growth as Human Resource makes profit through business activities and creates cutting-edge technology with innovation through research and development activities.

Human Resource itself is impossible to be imitated by other competitors since individuals have their own talents and personalities. Also, each Human Resource can be trained and developed to derive its maximum capacity for higher performance.

1.3.2 Importance of Human Resource Management

As obsolete technologies are replaced by new advanced ones in a flash, it is crucial for companies to have someone who keeps up well with the-state-of-the-art technologies. Companies being left behind with the new trend of technologies are highly likely to be isolated from their industries. Therefore, it is vital to secure talent pool that can be easily adaptable to new technologies and is able to train the existing employees.

In a knowledge and information-based society, one of the traits a company should have for its survival is innovation. In addition, innovation requires Human Resource's high level of capability and creativity.

Motivation is the key factor that employees can make a higher performance. A well-organized Human Resource Management system can provide employees with optimal solutions depending upon their needs and wants, which will lead them to a higher satisfaction level and it ultimately would enhance employees' motivation, affecting turnover rate as well.

As costs related to labor account for a considerable portions within the cost structure, Human Resource should be managed to find and maintain its optimal level. Both recruiting based on Human Resource plan and allocation of employees to the right position would make companies possible to have a reasonable expense for labor force.

1.3.3 Precedent Studies on Human Resource Management

According to Pigeons and Myers, good personnel management is to support and maximize each employee's potential to let all the employees to have high level of satisfaction from their work and organization. (P, Pigeons., & C. A. Myers, 1981)

According to Yorker, personnel management is a set of function or activity to help employees contribute with their maximum performance and be satisfied from their work. (Dale, Y, 1970)

According to Ivancevich, Human Resource Management is a system that makes employees actively participate in achieving goals, and is also a strategic process that materializes organizational and individual development based on organization's philosophy. (Anuradha, S., & Aradhana, K, 2006)

According to Pfeffer, there are seven elements that can describe the characteristics of Human Resource Management activities, and those are employment security, selective hiring of new employees, decentralization and self-managed teams, high compensation based on performance,

training, reduced status differentiators, and financial and performance information sharing. A Thorough control over these activities will let an organization have core competency that creates values. (Pfeffer, J, 1994)

According to Gilley, Human Resource Development is a set of organized activities to be designed for spreading improved knowledge, skills and behaviors that are gained through systematic education and training processes into the organization. (J.W. Gilley, 1989)

Shin found out that one of the most important factors that determine companies' success or failure is depending upon talent development in organizations. Human Resource Management system plays a critical role especially for Small and Medium Enterprises' success. (Shin, Y, 1996)

Cho and Kim compared the significance of employees with the average annual revenue growth rate and profitability of 70 companies for four years (1990-1993) in their research. It turned out that coefficient of correlation between those two were positive, having a significant relationship between Human Resource Management system and corporate growth. (Cho, Y., & Kim, I, 1995)

Lee categorized profitable and poorly performing companies according to their five years (1979-1983) of revenue growth rate and return on investment (ROI) to figure out difference among those companies' management characteristics. Profitable companies' human resource budget was 9.77% whereas poorly performing companies had a rate of only 3.70%. In addition, the budget for Human Resource Development was 2.39% for profitable companies whereas that of low performing companies was only 0.57%. This indicates that investment in human resource would lead companies to higher performance. (Lee, H, 1986)

In summary of the chapter 1, Korea has achieved an enormous economic growth in a short period of time, and much of contributions have made from Korean Small and Medium Enterprises. Also, the impact of Human Resource Management on companies' performance is humongous. Therefore, to strengthen their competitive advantages and to reinforce high potential talent pool for their sustainable growth, first of all, it is necessary to identify HR difficulties that they need to solve.

Chapter 2. Human Resource-related Impediments of Korean SMEs

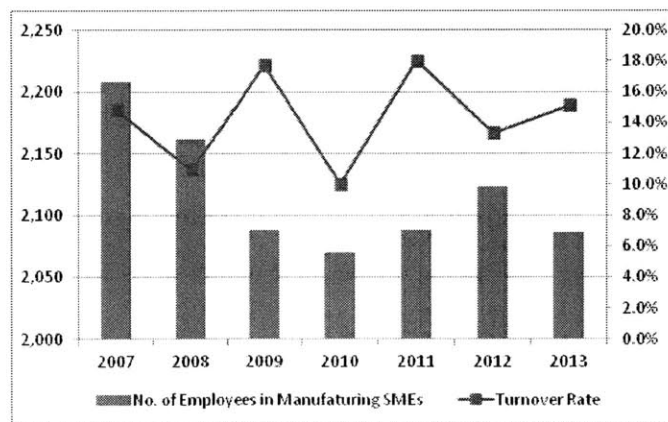
Under unique business environment in Korea that is Chaebol-centered business structure, Small and Medium Enterprises are facing various conundrums. Business environment is in fierce competition and, comparing to conglomerates, they usually have difficulties in financing and establishing stable business foundation in sales and marketing. (Aaron, 1990) Among all the challenges, Human Resource-related problem is one of the most urgent issues for Small and Medium Enterprises to solve.

2.1 High Turnover Rate of Korean Small and Medium Enterprises

Outflux of Human Resource can bear lethal damages to Small and Medium Enterprises especially when they lose core talents. In other words, retaining high potential employees meets with the company's survival. Therefore, keeping low turnover rate would benefit the companies with competitive advantage since it is hard to find the right talents but it is even harder to keep them.

Figure 10: Turnover Rate of Korean SMEs in Manufacturing Industry

Turnover Rate		<small>Unit: 0000</small>						
	2007	2008	2009	2010	2011	2012	2013	
No. of Employees in Manufacturing SMEs	2,208	2,162	2,083	2,070	2,088	2,123	2,086	
Turnover Rate	14.8%	10.9%	17.7%	10.0%	18.0%	13.3%	15.1%	



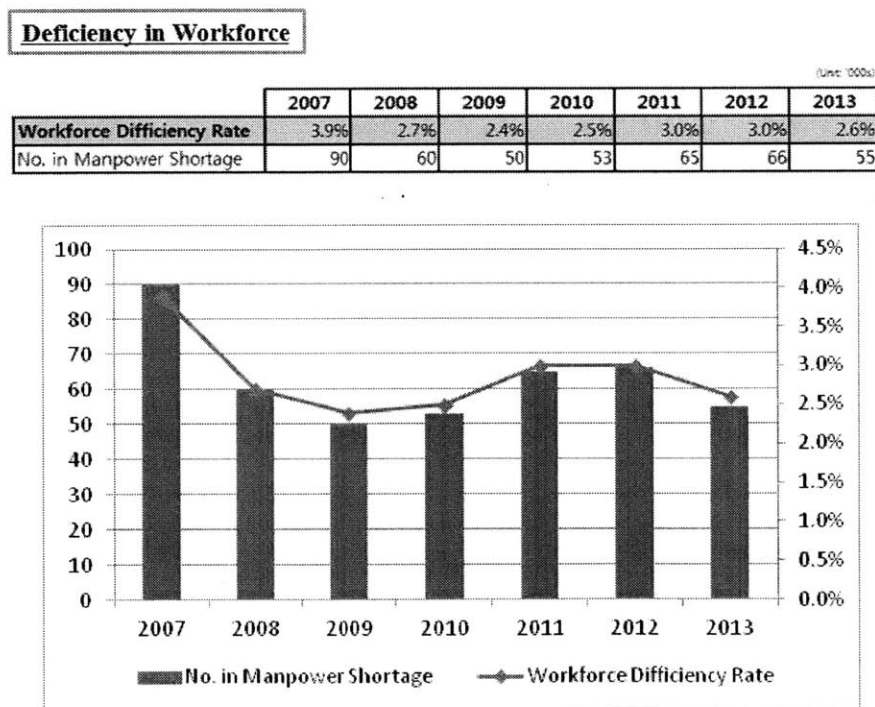
Source: Small and Medium Business Administration

The turnover rate in 2013 for Small and Medium Enterprises was 15.1%. The Turnover rate has a tendency to be fluctuated depending upon each year's economic situation. According to Saramin, a Korean recruiting consulting firm, the turnover rate for Small and Medium Enterprises in 2011 was 18%, almost double the turnover rate of Chaebol conglomerates, 10.9%. The main reason for changing jobs from Small and Medium Enterprises to conglomerates was the dissatisfaction in compensation.

2.2 Deficiency in Workforce in Korean Small and Medium Enterprises

Youth Unemployment Rate in Feb, 2016 recorded 12.5% in Korea which is the highest figure since 1999. The number of unemployed youth is 560,000, increased by 76,000 people comparing to last month. Ironically, however, Korean Small and Medium Enterprises are suffering from the lack of labor force.

Figure 11: Deficiency in Workforce of Korean SMEs in Manufacturing Industry



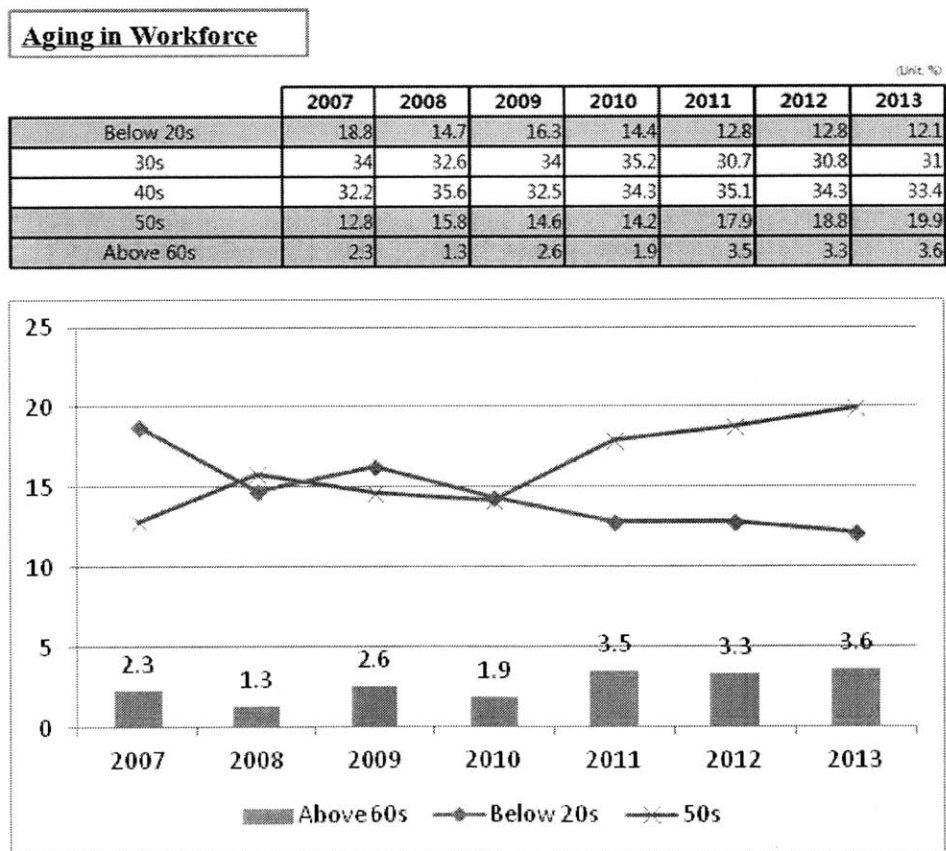
Source: Small and Medium Business Administration

The rate of deficiency in Labor Force in manufacturing industry in 2013 is 2.6%, lacking 55,000 additional labor forces. It seems to be improved in a way that Small and Medium Enterprises utilized Human Resource in 2013 comparing to 2007. However, disfavor in working at Small and Medium Enterprises still bears Human Resource-related problems endangering their survival.

2.3 Aging in Labor Force of Korean Small and Medium Enterprises

Quality in labor is a crucial factor in a company’s efficiency which is one of the key determinants for its performance. Therefore, with companies’ perspectives, it is essential to have high quality employees since their performance will be directly related to the company’s productivity.

Figure 12: Aging in Workforce of Korean SMEs



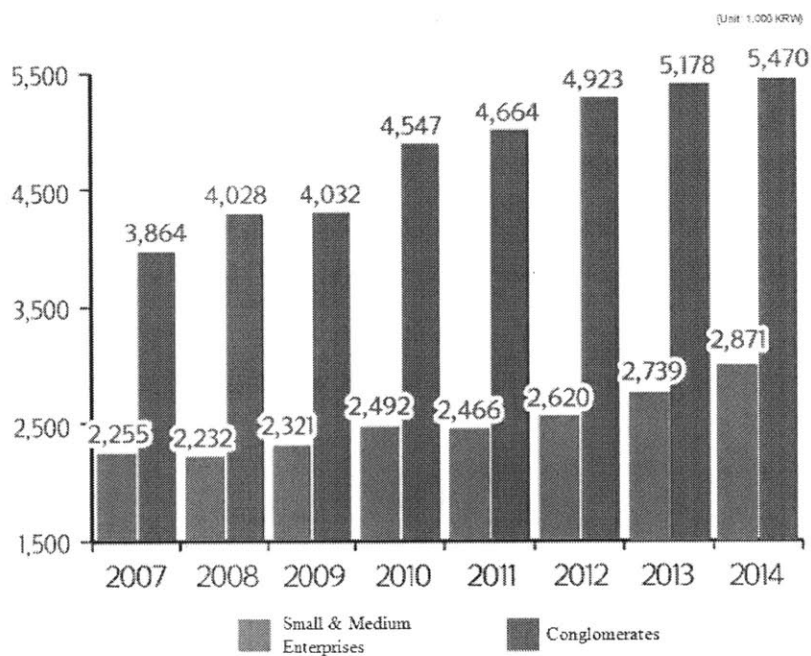
Source: Small and Medium Business Administration

From 2007 to 2013, there have been fewer employees in their 20s and 30s whereas the portion of employees in their 40s, 50s, and 60s is increasing. This indicates that the average age of employees in Small and Medium Enterprises is rising. In some points, aged employees could require additional costs to companies such as expense for re-socialization. Moreover, companies with high portion of aged employees could not be able to provide enough opportunities such as promotions to highly potential young employees, which would play a role as a catalyst for demotivation.

2.4 Wage Gap between Conglomerates and Small and Medium Enterprises

Lower level of compensation than that of Chaebol conglomerate is one of the major reasons that job seekers prefer working at huge firms. Wage gap between Small and Medium Enterprises and conglomerates is also one of the primary reasons that employees in Small and Medium Enterprises often change their jobs to bigger companies that pay higher.

Figure 13: Wage Gap between Conglomerates and SMEs

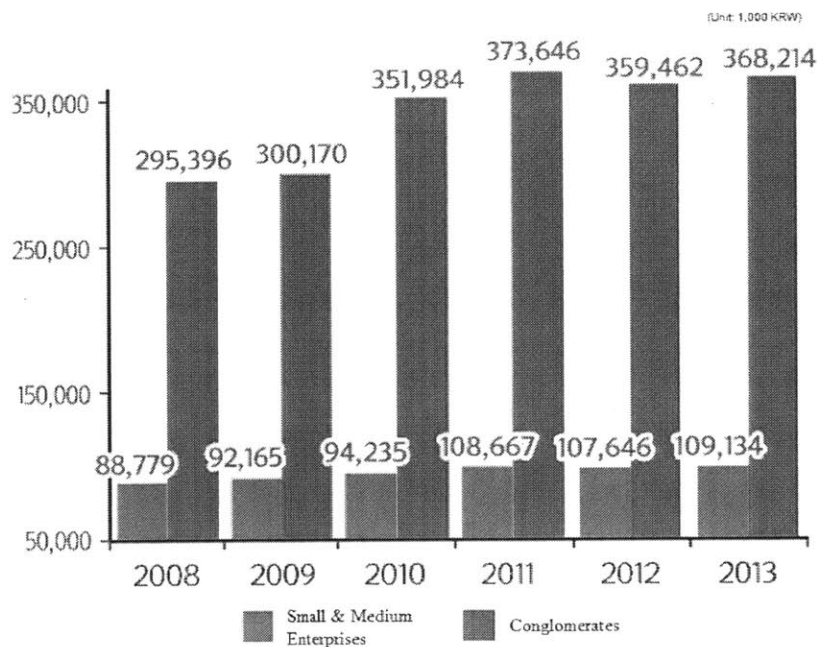


Average monthly salary per employee of Small and Medium Enterprises in 2014 is KRW 2.87 million won whereas that of Chaebol conglomerate is KRW 5.47 million won which is approximately two times higher than the former. As it is shown on the table, the gap in compensation between Small and Medium Enterprises and Chaebol conglomerates is getting bigger year by year. Salary-related issue is one of the most difficult problems that Small and Medium Enterprises can solve with their limited capital comparing to conglomerates.

2.5 Lack of Human Resource Development System in Korean SMEs

Productivity is one of determinants that are directly connected to a company's efficiency. Inadequate Human Resource Development system in companies could result in low level of productivity. Moreover, in most cases, Small and Medium Enterprises are having difficulties in developing Human Resource Development system with respect to uncertainty of consequences of investment and investment itself is often regarded as a burden with additional expenses.

Figure 14: Comparison on Added-Value Productivity per Employee



Source: Statistics Korea

The amount of added-value productivity per employee in manufacturing industry for Small and Medium Enterprises in 2013 is KRW 109 million won whereas that for Chaebol conglomerates is KRW 368 million won. Therefore, Productivity for Small and Medium Enterprises did not meet even one third of that of conglomerates. Through well-organized Human Resource Development programs, if Small and Medium Enterprises could generate higher performance with less manpower, the productivity for these companies could be improved.

In summary of the chapter 2, it is shown that the Korean Small and Medium Enterprises' investment and interests on Human Resource Management is not enough to gain Human Resource-related core competency to better compete with Chaebol conglomerates in fierce market. Therefore, through the successful HRM cases in the next chapter, I would like to look for feasible and effective solutions for Korean Small and Medium Enterprises' Human Resource-related problems, and suggest that they take them as benchmarks.

Chapter 3. Case Studies on Successful Human Resource Management

3.1 Talent Management Wheel

Figure 15: Talent Management Wheel



Source: MIT Sloan Management Review

Talent Management wheel consists of two main circles, the Talent Management Practices circle and Guiding Principles circle. (Stahl, G et al, 2011) The Talent Management Practices are common processes that most of Human Resource departments have: Recruitment and Selection, Developing and Training, Performance Management, Retention, Compensation and Rewards, and Talent Review. The most important principles within this HRM framework is the inner circle called Guiding Principles. There are six principles in the inner circle: Alignment with Strategy, Internal Consistency, Cultural Embeddedness, Management Involvement, Balance of Global and local needs, and Employer Branding through Differentiation. These six principles should have an influence over all the Talent Management Practices. Therefore, HR managers should apply these six Guiding Principles to all Human Resource processes from recruiting to retaining to have a successful talent management which leads companies to gaining competitive advantage.

In dealing with talent, there are two main philosophies that are the Differentiated Approach and the Inclusive Approach.

Figure 16: Various Approaches in Managing Talents

Hybrid Approach			
Differentiated Approach			Inclusive Approach
GE	Unilever	Infosys	Shell
Vitality Curve	High Potential Category	Potential Pool	Potential Talent at any level
20% / 70% / 10%	15% from mgt level	3%	

Source: Stahl, 2011

GE, Unilever, and Infosys are typical examples for Differentiated Approach to Talent. Differentiated Approach assumes that everyone cannot be core talent. Therefore, companies try to categorize employees depending upon their performance in managing human resource. On the contrary, Inclusive Approach has an opposite point of view on talent. Shell is the company that has the Inclusive Approach to Talent. With their perspective on talent, every employee at any level can become a top talent. Therefore, they try to focus on training all the employees within the company. There is, however, no right or wrong approach on talent management, so a Hybrid

Approach, a combination of the two, has been suggested as each of approach complements each other.

➤ **Alignment with Strategy**

Talent management should be aligned with corporate strategy. Therefore, if necessary, organization structure should be rearranged in a way that the new organization can have efficiency and effectiveness in achieving the corporate goal. GE, for example, has changed its organization to engineer-centered structure for GE's business strategy. In addition, Oracle has changed its assessment method on its employees to align their performance with the corporate target.

A firm's strategy needs to be flexible and organization should have adaptability to business strategy to successfully make integration between talent management and business planning process. A business goal should be aligned with the company's talent management system, so if there is a failure or a success, companies should be able to track the root cause using their human resource management system.

➤ **Internal Consistency**

If talent management system is not transparent or consistent, employees in the human resource management system can easily get lost about their positions in the company, which will lead them to lower level of motivation and loyalty that could result in poor performance. All the Talent Management Practices should have influences on one another and complement interactively, maintaining consistency.

Siemens has a monitoring system that oversees the consistency of the talent management system. BAE Systems let employees have a development program based on multi-dimensional assessment. IBM has a consistent HR system over all its subsidiaries. Using both qualitative and quantitative data, IBM audits the system's consistency. In addition, as one of the ways to improve its system, IBM takes survey about the system to increase employees' satisfaction level toward it.

➤ **Cultural Embeddedness**

A well-organized corporate culture is one of the key factors that enable the company to have a competitive advantage for sustainable growth. Therefore, it is crucial to fill a company with employees who have a perfect fit with its culture. As one rotten apple can spoil the entire barrel, ill-fitting employees can have a humongous negative impact on the entire organization. Therefore, a company should pay attention to its recruiting process as it is the very front line of screening people.

IKEA, for example, weighs more on the candidates' value and beliefs than their capabilities when IKEA goes through recruiting process. People's value system is much harder to be changed whereas it is much easier to train them in order to develop their capability. Emphasis on corporate culture should be ongoing after recruiting phase. When employees are being assessed, their fit for corporate culture should be monitored by putting a measurement for cultural fit. The higher the position of an employee is within the company, the higher the importance of cultural fit with the employee is because management-level employees have much influence on others than those in lower level. Therefore, companies should regularly provide all employees with education program for assimilation of corporate culture.

➤ **Management Involvement**

Employees in Human Resource department are not the only ones responsible for Talent Management. The effectiveness of the Talent Management can be maximized if all the employees are actively participating in the Talent Management process. Also, from general employees to top level management should have ownership in developing high-potential employee pool.

Management should allocate corporate resources in managing talents within the company to secure high quality of human resource that could play a role as the corporate core competency. There should be talent developing processes such as job rotation so that company can not only enhance employees' motivation but also raise them as well-prepared managers.

➤ **Balance of Global and Local Needs**

In handling with policies and practices related to human resource, there are three different approaches. Companies can have a firm global standard that all the subsidiaries have to follow, or can have various policies and practices depending upon each local need without having a global criterion, or can have a flexible global standard with several variation versions that meet local demands.

Global standardization might work efficiently in light of consistency since every talent management process will be identical regardless of the locations of subsidiaries. However, having a local version of talent management policy or practices could lead the company to attaining deeper and more diverse talent pools which better reflect each local condition and culture.

➤ **Employer Branding through Differentiation**

A high level of compensation does not guarantee the company's overall attractiveness to talented job seekers. Companies' reputation or fame in the society can play a huge role in bringing highly talented people's interests together. So to speak, this is the reason why modern companies should focus on making a powerful corporate identity, the brand of the company.

A successful differentiation does not come easy in any company. Since it often reflects a company's own culture, it varies depending upon companies' types of industry and their business philosophies. Also, it requires a long period of time and continuous investment. However, once a company has an invincible differentiated identity that comes from its brand, its talent pool from which the company can utilize will also be impregnable.

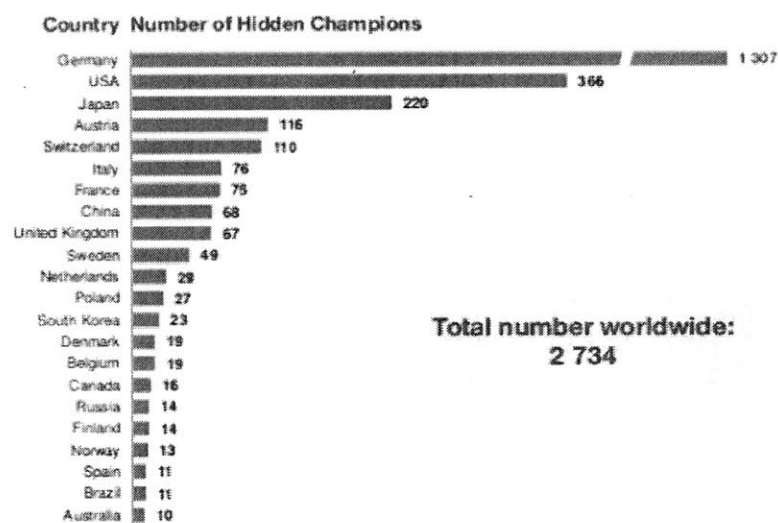
3.2 Hidden Champions

Hidden Champions are companies that meet the criteria below. (Hermann, 1996)

- i) Ranked 3rd place in worldwide or 1st place in a continent-level in terms of market share.
- ii) Revenue volume with less than 5 billion Euros.
- iii) Companies that are not well known to public.

Interesting fact about Hidden Champions is about a half of all the hidden champions worldwide are German companies. 1,307 companies out of 2,734 Hidden Champions are from Germany. Most of companies are not listed on the stock market, and most of them are family-owned. One-third of them are long-lived companies more than 100 years. Their average companies' age is 61 year. Hidden Champions have high portion of export ratio in their total revenue structure. (Dong, 2012)

Figure 17: Statistics on the Number of Hidden Champions



Source: Hermann, 1996

As for their success drivers, there are many things such as strategic approaches in globalization, concentration, superior quality through continuous research and development. However, as one of the key drivers that led the companies to a Hidden Champion, I would like to look deep inside of their organization, especially focusing on their Human Resource Management characteristics. They are as below. (Kwon, 2015)

➤ **Motivation and Loyalty**

The average turnover rate for German Hidden Champions is 2.7% which is far lower than 7.3% which is the average turnover rate for the entire German companies. One of the reasons with lower turnover rate can be found in the relationship among employees. Employees at Hidden Champions tend to build interactive and interdependent relationship due to the companies' isolated location. Also, this close relationship often turns into loyalty toward the companies.

In addition, Hidden Champions apply a strict screening process when they recruit potential employees. Even if a person has a high level of potential, if the candidate's personality does not match with the corporate culture, the person cannot be hired. After all, the companies will be filled with people who have the same propensity in the light of the companies' culture. This also leads employees to higher level of motivation due to the bond from similarity and they try to find values that work as ownership and vision within the organization.

Workload per employee is quite demanding, but instead of making complaints, employees try to accomplish tasks with pride through cooperating with others. Since Hidden Champion companies screen out non-cooperative employees, remaining employees are high-performers with team spirit, and there are many people who work with loyalty for more than 30 years.

➤ **Leadership of CEO**

German Hidden Champions' CEOs have a strong sense of leadership. They tend not to be separated their life from work with high motivation. Through firm entrepreneurship with business philosophy, they have a high level of satisfaction from work.

For example, Hans Riegel, the CEO of HARIBO-Holdings Gmbh & Co that has a significant market share in confectionary industry, is often evaluated as a person who is completely assimilated to the company itself. CEOs of Hidden Champions utilize two different leadership styles according to circumstances. When it comes to goal-related issue, they try to use directive leadership style. Without having a discussion, direction comes right from the top to bottom for its efficient and rapid execution. On the other hand, when it comes to creativity-required issue, they

take participative leadership style. By allowing autonomy to employees, the leaders make them have an influence on the issue with responsibility. Employees working at Hidden Champions often think that their companies have less regulations and official processes that can prevent them from generating creative and innovative ideas comparing to conglomerates.

➤ **Family-Friendly Corporate Culture**

One third of German Hidden Champions are long-lived companies with more than 61 years and most of them are family-owned. Therefore, one of the characteristics for Hidden Champions is that they have a family-friendly corporate culture. They focus on long term vision with business philosophy that takes people as the most valuable asset rather than pursuing for short-term performance. Lay-offs with the purpose of restructuring process are rarely made within Hidden Champions companies, and there are frequent cases of rehiring employees.

Heraeus Holding GmbH, a jewelry company with 30% of market share worldwide, picks family-friendly corporate culture as the key success driver. The 7th generation successor is running the company, and more than 200 employees are bonded with tight-knit relationship. Due to the various HRM programs related to job security, there are many employees who are more than 65 years old. 90% of the total employees are full-time regular workers, and there is a strong credibility between management and employees. In short, the company would never be successful without the corporate culture that is based on trust and understanding.

➤ **Human Resource Development (HRD) Programs**

German Hidden Champions put much effort on developing Human Resource Development programs. Well-made HRD programs can not only improve employees' capability but also achieve employees' satisfaction level by meeting their desire for development. Employees' high satisfaction level with self-fulfillment can lead the companies to lower level of turnover rate.

Carl Zeiss AG that takes the 2nd place in optical science industry worldwide invests in HRD programs that can internally develop promising talents. Under the principle that an employee should be trained by other employees, more than 200 programs such as data processing, physics,

electronics, leadership, management are provided for their employees in internal education institution. 95% of the total education is held within the company and the rest are done at outsourced institution or universities.

Fev, the No.1 Company in engineering services industry worldwide, also runs programs that help to improve its employees' core competency. More than once a month, managers should attend engineering training session, and general employees will be provided with broad scope of education. With respect to preparation for management level, about a half of the education is related to developing management skill.

Aixtron SE that has about 80% of market share in MOCVD market in LED industry has characteristic strategy in recruiting process. Providing scholarship to RWTH Aachen University, Aixtron tries to secure potential talents before they graduate. After they are hired by Aixtron, the company provides various training programs including engineering and management. Since Aixtron lets them have diverse opportunities for self-development, employees have higher level of satisfaction with pride.

3.3 Yuhan-Kimberly

Yuhan-Kimberly is a Korean consumer goods company that produces hygiene-related products. Both Yuhan Corporation and Kimberly-Clark Corporation invested in founding Yuhan-Kimberly in 1970.

Yuhan-Kimberly has been awarded as The Most Respected Company in Korea for 13 consecutive years. I would like to look deep inside the company to figure out the key drivers in its Human Resource Management process that made Yuhan-Kimberly a successful company.

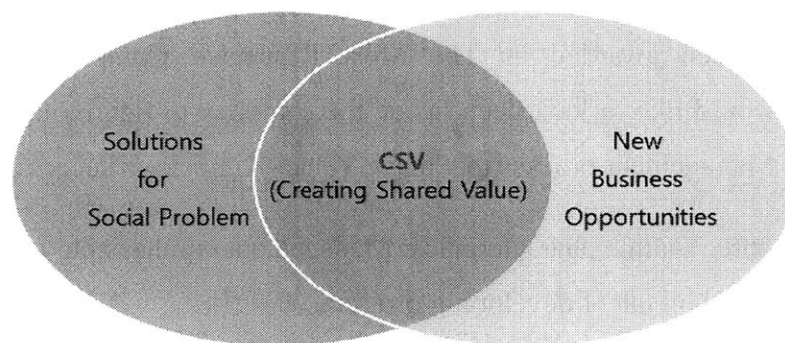
Yuhan-Kimberly has three unique characteristics: Management emphasizing on sustainability, on work and life balance, and on talent developing program.

➤ **Sustainability as the key corporate philosophy**

When people think of a company, they associate some images with it. For example, Apple has been hailed as an icon of cutting-edge technology, so people often combine Apple with the image of innovation. Like Apple, Yuhan-Kimberly has an image that is related to environment. Yuhan-Kimberly has been using a corporate slogan, “Keep Korea Green” for more than 30 years since 1984. As a result of this, even though Yuhan-Kimberly is the company whose major raw material is pulp, the company got a strong image of an environment-friendly corporation that pays a lot attention to saving forests. Under this slogan, Yuhan-Kimberly has been participating and sponsoring many of environmental movements such as planting trees, creating school forest, city forest and village forest, and sponsoring green camps. Yuhan-Kimberly focuses not only on Korean forest but also on forest of neighbor countries such as North Korea, China, and Mongolia. Yuhan-Kimberly has planted more than 50 million trees in Korea since 1984, and proclaimed a contribution to environmental management for sustainability in 1996 with founding a relevant organizational department within the company. (Yuhan-Kimberly Corporation, 2015)

In addition, Yuhan-Kimberly proactively pursues Corporate Social Responsibility activities. They aim to create a CSV to society. Creating Shared Value campaign is Yuhan-Kimberly’s new business strategy that can not only solve the social problems but also create new business opportunities.

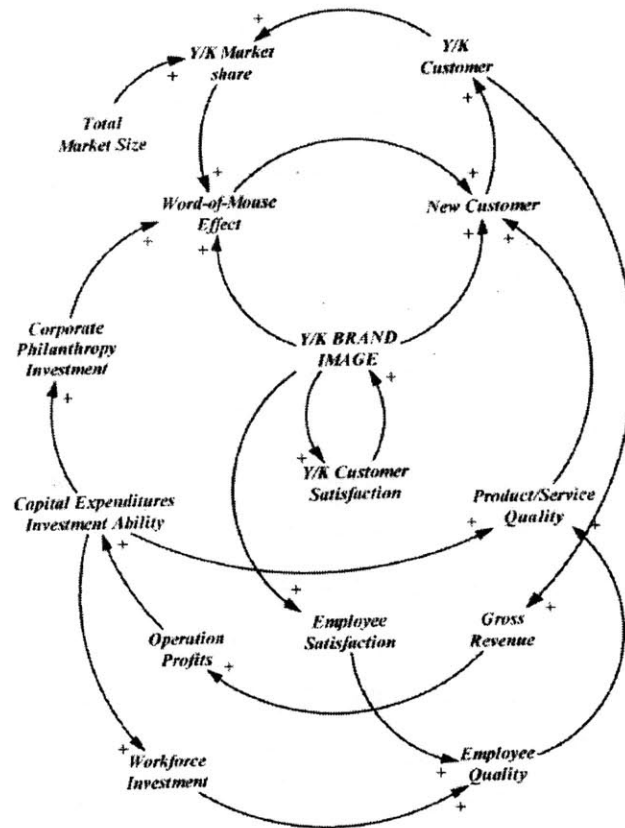
Figure 18: Yuhan-Kimberly’s CSV Diagram



Source: Yuhan-Kimberly Corporation

These successful campaigns in sustainability and corporate social responsibility activities established Yuhan-Kimberly's invaluable corporate reputation from public. Also, this made Yuhan-Kimberly possible to have its own exceptional identity that works as a corporate brand. Moreover, potential talents would be willing to work at Yuhan-Kimberly not just because of its high level of compensation but because of its role of generating values to the society, and existing employees also will be proud of their company, which lead them to higher motivation and loyalty, resulting in high level of productivity and performance.

Figure 19: The Dynamics of Yuhan-Kimberly's Corporate Image



Source: Ahn, 2004

➤ **Employees as key corporate assets**

Figure 20: Yuhan-Kimberly's HR Policies

Employees
• Smart Work
• Respect for diversity and prohibition of discrimination
• Family-friendly management
• Healthy labor-management relations
• In-company communication
• Fair reward system
• Challenging and creative organizational culture
• Improvement and development of personal abilities

Source: Y/K Sustainability Report

Yuhan-Kimberly thinks its employees as the most important assets in the company. Through rigorous recruiting process, Yuhan-Kimberly hires right people who have the best fit with the corporate culture. Yuhan-Kimberly's family-friendly management is another characteristic that motivates its employees. Flexibility on commuting time and lunch hour, Smart Office, Working Home, and personalized vacation policies allow employees to have a work and life balance. In addition, Yuhan-Kimberly has special Human Resource programs for females. Working Mom policy gives female workers opportunities to continue their career development. (Yuhan-Kimberly Corporation, 2015) Also, by signaling female workers that Yuhan-Kimberly has supportive systems for mother-to-be, the company can encourage them not to delay having babies because of their work and concerns on the job security. This would be a powerful motivator for high-talented female workers to remain in the company, and it also can make contributions in solving social problems such as low birth rate.

➤ **Talent developing program**

Yuhan-Kimberly emphasizes on its employees' career development. Yuhan-Kimberly's

differentiated Human Resource Development program starts right after the recruiting process. 4 weeks of orientation education is followed by 1 year of On the Job Training (OJT) with mentoring system and external training sessions. Career development programs run every year, and employees and supervisors set the goal and success standards and assess the performance together. Along with the business performance plan, Individual Development Plan (IDP) is one of the special tools to enhance individual capability for the employees' long term career goal. Flexible job rotation and Internal Job Posting policy allow employees to get experiences on various business areas according to each employee's interest. (Yuhan-Kimberly Corporation, 2015)

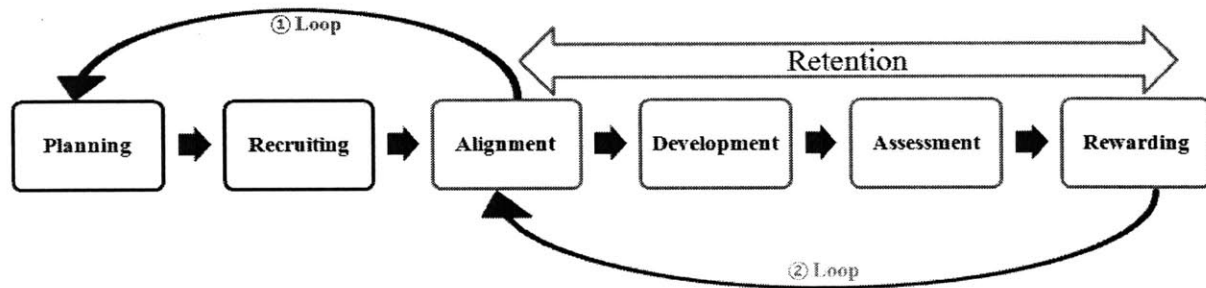
Yuhan-Kimberly's efforts to develop its employees to maximize their potential give them motivation to learn and to give it back to company as a form of higher performance. This also improves employees' satisfaction level so that Yuhan-Kimberly has a quite low turnover rate of 0.2% which one twelfth of the average turnover rate in manufacturing industry. In addition, well-organized education and training programs allow Yuhan-Kimberly to have 0.11% of industrial accident rate, one fifth of the average industrial accident rate. Through the company's appropriate Human Resource Development system, motivated employees with passion for learning will bear a win-win outcome both for employees and the company.

In summary of the chapter 3, as it is shown in the case studies above, successful companies have their own unique Human Resource Management strategies. In addition, a successful Human Resource Management system has its original features that focus on augmenting employees' loyalty and ownership by improving the level of motivation and satisfaction. They utilize Employee-oriented corporate culture that considers employees the most important assets, a firm vision that creates values in the society, and a robust team spirit that unites all the employees with a tight-knit bond to enhance their employees' satisfaction and motivation level. For Korean Small and Medium Enterprises, it is imperative to develop a Human Resource Management framework that is customized reflecting unique Korean business structure.

Chapter 4. Strategic HRM Framework for Korean SMEs

4.1 Dynamics of HRM Practices

Figure 21: Flow Diagram of HRM Practices



Human Resource Management begins with planning. In this phase, companies should figure out how many employees they need and how to structure their organizations to efficiently operate their businesses.

Based on the planning, recruiting process follows as the next step. Recruiting process usually goes through a set of screening criteria for all the candidates. As selecting a person unfit for a company could result in spending additional expense such as an unnecessary education, companies should keep monitoring their recruiting processes to make it thick and dense enough to effectively screen out unsuitable people and finally have the very talents they need and want.

As the third step, Alignment process plays material role in allocating human resource. To maximize the human resource, it is critical to assign people to the right positions. Also, through identifying each talent's expertise, companies should have contingency plan for alignment using human resource database to prepare for unexpected vacancies. If there is a demand for a new manpower, the process goes back to the planning step for recruitment. (① Loop)

To boost employees' potential capacity, a well-methodized development process should be

provided to them. Depending upon the size of the corporations, conglomerates actively invest in developing system for talent and its consequence turns out to be significant whereas Small and Medium Enterprises' level of participation on investing in Human Resource Development is low and they consider it a burden as additional expense. (Kang, 2001) One of the biggest differences between human resource and other resources is that human can be taught for better performance with immeasurable limit in learning. Therefore, customized career development programs for employees will not only enhance the corporate productivity but also motivate employees for higher performance.

Assessment is one of the most sensitive Human Resource Management practices to employees since it has much influence on determining an employee's level of compensation. The key factors that assessment process should keep are fairness and transparency. Legitimate performance-appraisal process will let employees have a great faith in their organization structure, and improved fairness will play as a motivator for better performance along with the belief that they will get paid for what they exactly have done for the company.

Most Small and Medium Enterprises have difficulties in providing satisfactory level of rewarding with limited capital comparing to conglomerates. Rewarding process should be justifiable and acceptable to employees. Rewarding process must correspond specifically with employees' performance so that it could not only give an incentive to employees for better output but also be applied as a guide to higher level of satisfaction. Highly satisfied employees with a firm motivation in achieving high performance and in self-development go through alignment process once again with having a new assignment or getting promotions. (② Loop)

Retention process is mostly affected by other Human Resource Management Practices, especially by alignment, development, assessment, and rewarding processes. If employees feel themselves discriminated within any of these four processes, their performance will be dwindled, and their level of motivation will be lowered, and in the end, they will leave their company. Since losing talents in whom a company made an extensive investment is a huge loss to the company, it is important to hire a right person, but there is even more emphasis on retaining the

talents.

4.2 HRM Framework for Korean Small and Medium Enterprises

Small and Medium Enterprises need to develop their own unique Human Resource Management Strategy to compete with Chaebol corporations in conglomerate-centered Korean economy.

There are five main categories that can cause a high level of motivation for employees: Job, Learning, Relation, Environment, and Culture. Companies should allow employees to have authorized autonomy toward their work with responsibility and to involve in decision-making process. Opportunities in learning should meet each employee's needs for better performance. Companies should support social activities that reinforce the relationship among employees. Working environment needs to be flexible to keep the work and life balanced. Lastly, corporate culture based on trust and respect should spread throughout the entire organization to improve employees' motivation level and to actualize it with business performance. (Samsung Economics Research Institute, 2001) Small and Medium Enterprises' Human Resource Management system should provide employees with the environment that can enhance their motivation level, which will lead them to excelling performance.

Figure 22: Strategic HRM Framework for Korean SMEs



In Small and Medium Enterprises, a planning for Human Resource is closely related to their cost structure. Having an ideal number of employees to the every single job can lead the company to attaining an optimal labor cost structure. Unlike Chaebol conglomerates, Small and Medium Enterprises do not hire people on a regular basis. They have an advantage in managing the number of employees as they are flexible in hiring potential employees. Therefore, it is crucial to have a crystal clear blue print that tells exact head count needed for each job so that the companies can keep their idle labor force as low as possible. Also, through benefit-cost analysis,

Small and Medium Enterprises should make use of outsourcing if hiring employees generates more costs and if the role itself is not critical in operating the business.

One of the fundamental reasons that Small and Medium Enterprises are suffered from Human Resource-related issues is job seekers' preference in choosing their workplace, the type and size of companies. Therefore, it is important for Small and Medium Enterprises to develop stable channels that can supply high quality labor force. By reinforcing academic-industrial cooperation, companies can secure potential talents in early stage. In addition, companies can provide them with customized training programs so that they can create expected performance right after their graduation. As Small and Medium Enterprises usually have a close business partnership with Chaebol conglomerates, they can take advantages from the relationship. By establishing "Dispatched Worker" program, Small and Medium Enterprises can hire high quality talents from conglomerates who can not only contribute to the companies' performance but also train their employees for improvement. Also, with respect to the conglomerates, they can also benefit from this program by obtaining competitive suppliers. Internal Recruitment is an alternative way of efficient staffing. Instead of searching for new employees, verified and also qualified existing employees can be excellent talent sources that companies can utilize with saving a huge cost. Moreover, they are highly likely to perform better than new employees since they already have networks in the company and are accustomed to corporate culture, value, and mission.

In alignment process, clarification of every single role and its responsibility in each department should be preceded to efficiently and effectively allocate the limited Human Resource since Small and Medium Enterprises have less segmentalized job structure than conglomerates. Alignment has a close interaction with planning since it is highly affected by the organization structure. Also, Alignment should reflect the needs from each department not to have workforce surplus which causes inefficiency. In addition, managing the entire talent pool with supervision over each employee's expertise development will enable companies to swiftly cope with unexpected vacancy not having a negative impact on their business. Finally, firmly clarified role and responsibility will boost employees' sense of ownership on their work and also enable the companies to have a systematic manpower plan for the entire organization as well as optimized

allocation of Human Resource.

As development is related to the companies' productivity and efficiency, Small and Medium Enterprises should change their attitude toward spending on building up development programs as a positive net present value investment not just as expenses. The goal of talent development can be categorized into two parts. Organizational level goals can be improvement in productivity, revenue, growth rate and cost reduction, and Individual level goals are improvement in capacity, confidence, attitudes, behavior and achievement in self-actualization. (Morrison, 1993) To broaden employees' work scope and to enhance expertise in their interested areas, T-shaped Job Rotation program will have an enormous impact on companies with improving employees' capability, which enables the companies to flexibly utilize their talent pools. Also, development program should focus not only on quantitative improvement such as a level of performance or productivity for the company but also on qualitative enhancement such as individual career development for employees themselves, which will bring a higher level of employees' satisfaction as well. Thus, the development plan for employees should consist of two main domains: Individual Development Plan (IDP) and Performance Plan (PP). In addition, within each department, installation of Learning Organization will bring companies invaluable knowledge accumulation and process improvement. By creating database with Learning Organization, every employee can access the informational database for correction or improvement of their jobs by self-training. Ultimately, standardization of works based on the database will help employees have less confusion to new jobs advancing efficiency and will enable companies to have a backup plan, flexible job rotation plan, and an automation plan. In-house consulting and external consulting are also credible sources of developing Human Resource Development programs.

Assessment itself is an extremely important step in Human Resource Management since it directly relates to the level of compensation. Assessment process has to cover from its primary stage, the goal-setting. Each employee will have an annual goal with interim evaluations with feedback for improvement. To make an unbiased assessment on performance, it is imperative to clarify objectives to achieve. Employees should be involved in setting goals, success criteria, and

appraisal methods. The goals themselves should be as quantifiable as possible to avoid the intervention of subjective judgment on performance. The process of assessment should be transparent and fair so that all the employees can accept the compensation package resulting from their performance. Installation of Internal Audit for Assessment Team (IAAT) will enhance the level of transparency and fairness of the assessment process since it will monitor the entire appraisal process as a third party. In addition, a Multi-dimensional Assessment System could reduce potential biases in the appraisal process as an employee will receive feedback not only from supervisors but also from colleagues or even subordinates. All these steps for assessment will be under the Performance Management System (PMS) which controls Development, Assessment, and Rewarding phases. Also, PMS' evaluating area will cover multifaceted performances including personal development, organization commitment, and a fit with corporate culture.

Financial and non-financial compensation are the two major methods of rewarding employees. Most of Small and Medium Enterprises have difficulties in providing a high level of financial compensation due to their limited capital resources. Also, one of the main reasons for leaving Small and Medium Enterprises is the unsatisfactory level of compensation. For these reasons, it is necessary for them to make an emphasis on non-financial rewarding. Qualitative rewarding could include perks that the other competitors do not offer and proper recognition from management for what employees have done. Promotion should not be fixed with years of employment. Employee of the Month policy will not only stimulate employees' passion for achievement but also improve their satisfaction level. For the financial compensation, on the other hand, it is crucial to set the level of rewarding which meets the satisfactory level that employees expect, but it should not be a critical financial burden to the company. Industry Benchmark can be a guide to setting a reasonable compensation level. Also, financial compensation and performance, especially for the business performance, should be closely interlocked. Performance-based Incentive System that is not influenced by the years of employment can make employees focus on improving performances for higher compensation. 70:30 Salary Betting Program can motivate employees to meet or exceed their target to double or

triple their 30% of the total salaries.

Retention process is the most complicated step among all the other Human Resource Management practices as it is affected by every single process. In other words, if an employee is not satisfied within any of HRM practices, it is highly likely to be failed in retaining the employee. Companies need to keep their financial status as healthy as possible to signal employees that their job stability has been secured. Also, CEO as a leader of an organization has to clarify and share the corporate vision with the entire employees to let them have a sense of purpose for the society. Establishing a prestigious and reputable Corporate Brand as an identity could make huge contributions on retention process since it allows employees to have a pride of being involved as its members. Corporate Branding can be carried out in two different ways: Corporate Social Responsibility activities and Corporate Marketing. Corporate Social Responsibility activities will let companies create social utilities for the entire community. Also, they will bring benefits to the companies by gaining respect and reputation from the society, and this can make the companies workplaces where every job-seeker wants to work. Plus, Corporate Marketing should be focused on the exercises that can increase the public awareness toward companies and their brands. The fundamental reason for creating a Corporate Brand with respect to the Human Resource Management is to make companies attractive both for existing employees and potential talents so that companies can easily hire highly potential employees and can improve existing employees' satisfaction level by making them being proud of their companies. One of the most effective tools that companies can use for retention is the utilization of corporate culture. Employee-oriented corporate culture will have a humongous impact on the retention policy for Small and Medium Enterprises. As happy employees can make their customers happy, it is crucial to provide them with programs that can improve their quality of lives. Firstly, communication is like a vein of an organization, so companies have to set the stages for interactive communication open to all the employees. Supporting formal and informal social groups within companies can strengthen a sense of community which can play a role as retention. Idea of The Month can benefit the company with the opportunities of improvement, and it also can motivate employees to freely share their ideas, making internal communications

smooth. Check-In System with the unit of a team can enhance a sense of connectedness within an organization. Five to ten minutes of small talk among team members can build up a much stronger team spirit. Another method for improving corporate culture is Ombudsman System. By providing employees with channels of sharing complaints, feedback and suggestions, companies can have opportunities of identifying and solving problems including ones beneath the surface. Corporate culture for Work and Life Balance is also an effective tool that a company can offer employees for the purpose of retention. Working Home, for example, can allow employees to have flexible working hours so that they can manage their time, saving commuting time. Every Friday Family Day will make employees finish their work by 5pm on every Friday so that they can have a full weekend with their family for recharging. Alternative Day-off policy will let employees take vacations according to the amount of overtime work and number of days of working on holidays. Instead of paying for those irregular works with high rate of pay, companies can have them take a day off from work for the purpose of work and life balance, retrenching labor expenses.

The key to success for retention depends upon gaining a high level of loyalty from employees. It could then instill intensified sense of ownership which makes employees contribute to the company with a long-term aspect for its sustainable growth.

The first and the most important premise in executing these Human Resource Management practices above is to keep a consistency with the corporate strategy. Therefore, every single process should support a company's business strategy to achieve its target. For example, goal setting for all the employees should be top-down so that accomplishment of lower level workers' goals will automatically leads to achievement of their supervisors'. With this matrix, ultimately, corporate will be able to meet its objective.

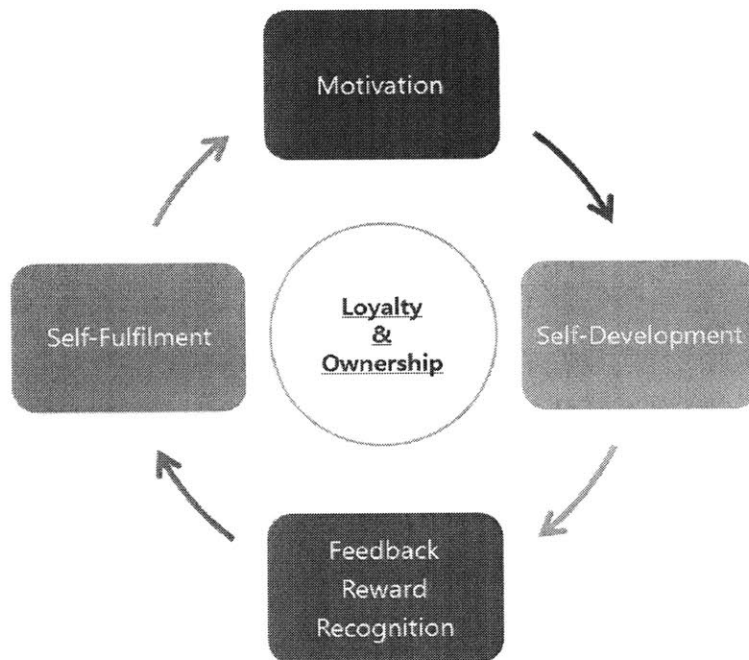
4.3 Expected Virtuous Circles from Successful HRM Strategy

A successful Human Resource Management strategy can bear a myriad of utilities from various

domains in the society. There can be three main types of virtuous circles that can be created from the successful HRM strategy: an individual-level, a corporate-level, and a social-level Circle.

➤ **Individual-level Virtuous Circle**

Figure 23: Individual-level Virtuous Circle



A successful Human Resource Management can improve employees' satisfaction level that can reinforce employees' motivation. It leads them to pursuit of self development with passion of learning both for the organization and for themselves.

With the employees' performances based on their capability and ability, the company's Human Resource Management system will provide them with the proper feedback for improvement. Also, financial and non-financial compensations will be followed and appropriate recognition within and across departments will drive employees to aim for higher level of self-fulfillment which will generate new dimensional motivation for self development. This individual-level

virtuous circle will ultimately end up with enhancing people’s loyalty and ownership toward the organization they belong to.

➤ **Corporate-level Virtuous Circle**

Figure 24: Corporate-level Virtuous Circle



Based on systemized Human Resource Management, a company will be able to optimize its workforce planning. Each division will have a clear description of its role and responsibility, and, more importantly, the number of employees needed for specific jobs will be optimized. This makes companies possible to improve cost structure regarding labor-related expenses. Better output with optimized number of workers will result in a superior productivity. Enhanced labor force will come up with enriched performance and companies will be capable of pursuing sustainable growth. High level of compensation with job security will enhance the level of employees’ satisfaction, and by retaining high-potential talents, companies are able to secure and develop their talent pool. With utilizing high-performing employees with exceeding productivity,

companies will be equipped with an advanced workforce planning which will make them possible to achieve even better labor-cost structure. Ultimately, a company will be able to acquire corporate competitive advantage that is both inimitable and invincible.

➤ **Social-level Virtuous Circle**

Figure 25: Social-level Virtuous Circle



The aggregation of each organization’s talents will form a national-dimension talent pool. Both economic growth and technological progress out of outstanding talents will create a great number of new jobs, and it will make contributions on increasing in employment rate. New employees will be raised through well-methodized Human Resource Management filled with customized training and education programs that will make next-generation talents. Innumerable talents will let the society have invaluable utilities, playing a role as a core competency. With all the talents that are amassed through rigorous Human Resource Management system, it will enable the society to secure and develop high quality national talent pool. By letting the cycle

keep moving, the society will be able to attain national competitive advantage that makes the country much sturdier.

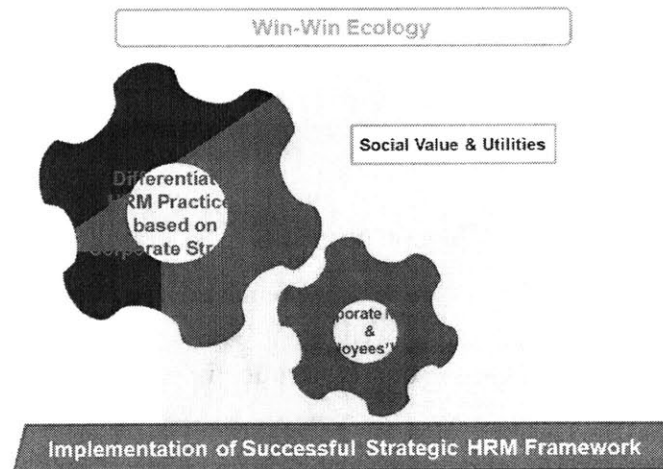
In summary of the chapter 4, Korean Small and Medium Enterprises should develop an organic structure of Human Resource Management system. Each HR practice should interactively influence one another for the entire HRM system's advancement and improvement to have differentiated values. In addition, all the elements in the Human Resource Management system should be aligned with the corporate strategy. A successful Human Resource Management system will create virtuous circles that can benefit all the members of society, employees, corporations, and the society itself.

Chapter 5. Conclusion

Asset, with the accounting perspectives, is a resource that a company possesses to bring economic benefit to the company in the future. Among all the types of assets, Human Resource is the most significant asset since there is an infinite value and potential in it. Peter F. Drucker, the author of *Management*, defined that "People are the greatest asset". (Drucker, 1974) Through an exquisitely designed Human Resource Management system, companies can develop talents to maximize their capacity which can improve the organization's entire performance. Therefore, as Korean Small and Medium Enterprises play a crucial role in Korean economy, they must pay attention to developing well-knit Human Resource Management system to maximize their employees' performance. They also need to comprehend the problems that they are facing with through employees' points of view. This new mind set will let them have creative approaches to solve the Human Resource-related issues. With utilizing corporate marketing through various channels, they need to attract high quality of labor force, and once they hire employees, it is critical to develop them to make them key drivers for corporate sustainable growth. A systemized Human Resource Management would effectively retain high-potential talents, and it will be the best business strategy for companies to have an invaluable talent pool with a full control within the organizations for their present and future. High quality talent pool will let companies secure a

core competency in workforce. Ultimately, Human Resource would determine the organization's future whether it can survive in the fierce competition.

Figure 26: Implementation of Successful Strategic HRM Framework



To have successful next generation conglomerates like Samsung or LG in Korea, it is necessary to foster and support Korean potential Small and Medium Enterprises. Infrastructure that is provided by all the members of society including Korean government should let Korean Small and Medium Enterprises have opportunities to develop their core competencies, which will return to our society in a form of inestimable social utilities and values. Therefore, Korean Small and Medium Enterprises should be aware of the consequences of Human Resource Management, and they should invest in developing talents considering them the most important assets not unavoidable expenses. Ultimately, a successful Human Resource Management system will create the win-win ecology from which employees, companies and the entire society can benefit, creating the maximum level of utilities for all the society members' sustainable growth.

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