It's time to value human resources

MANAGEMENT

Ravi Kumar
KAIST Business School dean

Having lived in India for many years, I have developed an understanding of how hierarchical organizations work — there is a major focus on control; loyalty is demanded with promise of long-term employment; employees are narrowly scoped into task-oriented jobs; and innovation is supposed to come from the top and productivity from below.

After working in the United States for many years, I am used to flat organizations that are focused on "performance," where job mobility is high, loyalty is earned, questioning the status quo is supported, innovation can come from anywhere — inside or outside the organization — and retaining human talent is the name of the game.

Reading research articles from respectable organizations like Samsung Economic Research Institute and Korea Labor Institute, it seems that Korean human resource management systems has been changing over time.

Before 1987, the focus was seniority-based to support a stable workforce needed for rapid economic growth; gradual changes were made between 1987-1998 to encourage personnel abilities needed by basing promotion decisions on skills possessed by employees; and after the IMF crisis in 1998, performance-based pay and bonuses were encouraged for employees.

Research also shows that, while such changes in Korean human resource management are occurring, large companies are still focused on the traditional control-loyalty dimensions for their core employees and the "hobong" system still rules, when it comes to recruiting new talent and to a large extent, in annual pay increases — incentives and bonuses are still a small portion of the overall pay compared to seniority.

It is time for Korean human resource managers and company senior leadership to revisit the "hobong" system and see if what was useful in the past is going to be sufficient for them in the future.

Let me focus on employees with post-graduate degrees, such as MS and MBA, the kind that top schools, like KAIST, whether through their business schools or their science and technology schools, are seeking to train and develop to support our corporate clientele.

It seems to me that human resource managers in large companies are not sure how to utilize this talent. I have talked with MBA students, both domestic and international, from many top business schools in Korea and the response seems to be the same — MBA degrees are just equivalent to one, maybe two more years in the hobong table, that's it!

And that can be frustrating for this talented group since they have learnt a lot during their educational program, they are excited to add value to companies that they join but are frustrated that these skills are not valued or going to be utilized any time soon.

Made me think of how disappointed I was, in 1987, when, after being a professor for 5 years teaching MBAs and consulting for several companies, I was offered a job by a Fortune 50 company at a level similar to MBAs.

One industry that seems to be able to attract and utilize MBAs well in Korea is the consulting industry; they do look at the specific skills that these students have and match them with projects that they are engaging in for their clients, whether in marketing, finance, operations, IT or strategy.

Another industry that does well is the financial securities companies, as they pick off our talented Finance MBAs who have specific skills in investments and asset valuation.

The emphasis in hiring in both these cases is more on performance and value brought to the specific job — consulting engagement — and building a talent base for the future.

So, what should Korean human resource managers do? Should they emulate the Japanese human resource models (where post-graduates like MBAs are not valued — only in-house education and experience in the company are)? Or should they be looking at human resource models from their current and future competitors, like China and India.

If one looks at three-year pay raises at Indian and Chinese business schools in the Financial Times top 100 ranked schools, they are 50 percent to 100 percent more than those at KAIST Business School.

This implies that companies in India and China do consider that these MBAs out of top schools are talented human beings with managerial skills and some experience.

It is time for Korean human resource managers and company senior leadership to revisit the hobong system and see if what was useful in the past is going to be sufficient for them in the future. It is clear to me that the future success of Korea depends on innovation and creativity, based on sound technical and managerial knowledge, as well as excellent leadership, communication and problem-solving skills.

Korea's top universities are trying to provide such human resource talent— Korean companies need to get ready to provide the organizational infrastructure and human resource management systems to nurture and get value from them.

Chaotic geopolitics and finance

GLOBAL ECONOMY

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The events in North Africa and the Middle East have cast a thick cloud over the incipient global economic recovery, especially in the most vulnerable economies.

This is certainly the case of the Euro Zone. If tensions continue to spread, other areas might be affected.

These events illustrate the impact of geopolitical risk on economic and financial variables in an environment already characterized by uncertainty.

The rapid diffusion of popular uprisings, that is, the contagion effect observed thus far, is to a certain extent similar to the unfolding of events during the financial crisis afflicting the advanced economies after the beginning of the credit crunch in the United States in July of 2007.

The difference with the second-largest financial crisis in history lies in the unanticipated nature of the popular mobilizations and the difficulty in assessing their impact on economic variables and business behavior with some degree of accuracy.

While we can clearly discern the disappearance of an "old order," it is not at all easy to foresee how a replacement will come into being.

It is perhaps likely, and certainly desirable, that in the medium to long term, after a transition that at the present appears to be mired by uncertainties, countries in the region will improve the quality of their political institutions.

The young have played a key role in the popular uprisings, indicating a lack of economic opportunities and a greater familiarity with the new tools of mobilization enshrined in telecommunications technologies.

In that case, economic and business conditions would be more munificent, and living standards and the welfare of the citizenry might also improve.

So far the variable that has proved to be the most sensitive is oil prices, especially after the wave of popular mobilizations reached Libya.

This country produced before the conflict some 1.7 million barrels a day, 80 percent of which were exports. Proven reserves are estimated at a level of 44,000 million barrels. Libya is the eighth-largest producer within the OPEC, the cartel that accounts for 40 percent of global supplies.

The protracted fight between pro and anti-government factions and the evacuation of oil workers by major multinational firms, such as Italy's Eni, the largest Libyan producer, has added to the negative effect on the markets.

Taken together, North African and Middle Eastern countries account for 61 percent of global oil reserves and about half of gas reserves. It is not surprising that Brent prices have risen by 15 percent in a matter of weeks.

Volatility has also come to dominate the market for other commodities. Food price increases are especially worrisome because of their impact on inflation rates and on social turmoil, which could further undermine economic recovery.

Some currency safe havens, such as the Swiss franc, have directly felt the impact of heightened risks. In the end, instability makes it harder for economies to perform well and for unemployment to come down.

We are witnessing political revolutions whose full effects will not be known for some time. An intensification of migration outflows might extend the consequences into neighboring countries.

The young have played a key role in the popular uprisings, indicating a lack of economic opportunities and a greater familiarity with the new tools of mobilization enshrined in telecommunications technologies.

In the long run, however, this is a good sign because the young can carry the torch of democratization in a part of the world that so far was oblivious to the globalization of political freedoms and did not enjoy the kind of economic growth that results in a greater well-being of the population.

Consistency key to taming inflation

KOREAN ECONOMY

Sharon Lam
Mogan Stanley economist

Inflation is now clearly a big risk for the economy. We have been highlighting this since the middle of 2010, warning that Korea has all the ingredients for higher inflation.

These include a prolonged low interest rate environment, strong domestic demand, tight capacity, and a low unemployment rate. We have urged that policies be implemented to preempt inflation.

There are arguments that Korea's inflation is mainly due to import prices and therefore that the government should use currency appreciation to fight it.

Is Korea's inflation imported? Well, let's see. Inflation in this cycle started with food price increases, and part of that was imported. Yet part of it was also due to a poor harvest following heavy rains in the summer of 2010 and too much snow this winter.

The unfortunate outbreak of foot-and-mouth disease added further pressure on meat and dairy product prices. But what about demand?

Festival period demand over the last Chuseok and Lunar New Year was strong. Positive consumer confidence, higher incomes, and low interest rates on bank deposits are all driving stronger demand, as is eating out at restaurants, the increased demand from which has also contributed to higher food prices. So, food inflation is not due solely to imported food prices.

Commodity prices have picked up later than food prices in the current cycle, but they are also pushing up inflation now.

Korea is a heavy commodity importer for industrial use. Imported energy prices and raw material prices in the Korean won terms have risen 12.6 percent and 10.9 percent, respectively, since September 2010.

The increase in raw material prices has led to a rise in the producer price index (PPI), which rose to 6.2 percent in January from an average of 3.8 percent in 2010.

However, just as for food prices, cost-push factors cannot fully explain producer price inflation. Demand-pull inflation pressure is also present in the PPI.

Korea's manufacturing capacity utilization rate has been hovering above 80 percent since the beginning of 2010, meaning capacity is tight.

Business surveys reveal that capital expenditure will only grow higher in absolute value this year to expand capacity to meet demand. In addition, the low interest rate environment is also encouraging capital expenditure growth.

So, food and commodity prices have triggered the increase in inflation. But now the pressure is clearly spreading to other prices. Core consumer price index (CPI), which strips out food and oil, rose to 3.1 percent in February, from an average of 1.8 percent in 2010.

Again, the rise in core inflation cannot be fully blamed on import prices — it is actually due more to stronger domestic demand. Services account for 60.4 percent of Korea's CPI.

The service sector is affected less by external factors and more by domestic demand. The jump in core CPI means inflation is already affecting most consumers; thus, inflation expectations are rising and are being reflected in consumer sentiment surveys. When inflation expectations surge, this leads to an upward price spiral.

The upward price spiral, sustaining inflation at a high level, will threaten the economy. We cannot just wait for international food and commodity prices to come down. We cannot just hope for foot-and-mouth disease to cease.

The country cannot rely on currency appreciation to fight inflation, considering the cost and effectiveness of intervention in the foreign exchange market.

It is difficult to see any sharp appreciation in the won this year, due to Korea's declining current account surplus and capital outflow. It will be costly to fight such fundamentals.

It is not just about import prices. Korea needs to stop inflation expectations from soaring in order to halt the upward price spiral. A consistent policy stance is needed to manage consumer expectations on inflation.

When the CPI is above the central bank's target range, the bank needs to take appropriate action. Unpredictable policy will only confuse the market and consumers.

Man in charge

Understand clients' dreams before finance planning

John Wylie
ING Korea

While they were going through the 1997 financial crisis, Koreans had personal or indirect experiences in managing their finances.

Some Koreans could accumulate wealth by utilizing successful investment techniques, while others were troubled with financial hardship or even bankruptcy.

Perhaps all of those experiences together with subsequent extensive quality media coverage have led to the significant improvement in the knowledge of Koreans of finance, economics and investments.

Many financial firms try to focus on providing high standards of products and services to Korean consumers. However, according to the results of a recent survey conducted by ING, they don't adequately satisfy their clients.

Last November, ING Group performed the financial quotient (FQ) Survey to estimate the FQ of 5,000 clients in its 10 most significant markets. According to the result of this study, 97 percent of Korean respondents have a "basic" level of finance knowledge or above, out of 4 different levels such as "poor," "basic," "good" and "excellent."

It is the highest result among the nations surveyed. Considering the number of respondents a "good" level of FQ or better, Korea takes third position behind Japan and India. Ninety-five percent answered, "I want to improve my financial management skill," which is above the global average of 89 percent, while the respondents with little interest in asset management were just 3 percent.

These two numbers demonstrate that Koreans are the most actively interested in asset management. Nevertheless, the important implications for Korea in this research can be found in the following parts.

A surprising 43 percent of Korean clients answered they had trouble in finding the way to get started with their wealth management and 42 percent responded the asset management system is too complicated, seven times higher than in India with 6 percent.

Considering these answers, local insurers and financial firms should take time for self-examination. Korea ranked the lowest in people's satisfaction with their own finance management with just 28 percent saying they are satisfied with the current status.

When searching through Korean newspaper articles on the Internet with the keyword "financial planning," about 3,000 stories are retrieved every year. It is simple evidence that, in Korea, various types of financial services are already offered in a variety of ways through different channels.

Then, why do those clients still find it difficult to manage their assets? Maybe, it's because, as the Korean saying implies, financial firms provide their clients with "strawberries" and "grapes" with the assumption that they just want any fruit, while the clients clearly express that they want "apples."

The most important factor in financial planning is not to just compute data by figuring the client's current status, needs and future plan but to understand the dream of each client. Each month when talking to new financial consultants (FCs) I ask them, "What do you think insurance is?"

The answers are always varied and interesting. However, in the end, it is concluded that insurance is to make the intangible dream tangible and achievable. That's right. It is natural that everyone has different dreams, isn't it? Understanding the needs and desire of individual clients and their dreams must be the basis of an FC's personal financial planning for them.

When this personal financial plan is combined with expertise in finance, the FC can deliver easy-to-understand, satisfactory and stable services to each client.

As Korea has over 100 years of modern finance history, it is likely that as the market continues to mature more customer needs will be considered and their participation in both the market and their own financial planning will increasingly grow.

The mission and vision of ING Life Insurance is to help our clients fulfill their dreams. We try to stabilize their lives by managing their financial risks while helping them earn attractive earnings on their hard earned savings.

Comments

Get serious on global currency

Boguslaw P Balata's comment ('Has Korea's FX trick brainwashed reporters' published March 7) proves to be a clarion call to knock the brains of one and all in and out of Seoul.

Yes, to have win-win situation won of Korea has won the hearts and minds of people outside Korea in terms of cheap imports but may have created pain in Seoul — the soul of Asia without understanding the science of soul known as "spirituality."

As an economist, I am deeply motivated to find out ways and means to be out of the FEAR (False Evidences Appearing Real) and panic caused by currency won as low as possible.

There is a strong case for policy coordination to prevent the currency disputes for which we should use the wisdom of the professional economists for suggesting the remedial measures in international perspectives. We should seriously think of international currency of the kind great economist of our times J.M. Keynes advocated "BANCOR" in his historic book, "The General Theory of Employment, Interest and Money," which is capable of not only solving the disputes but natural death to the problem of black money in foreign exchange.

The Bretton woods institutions — World Bank and IMF — should provide the leadership for the great cause of international currency 'BANCOR' as they did for the fiscal deficit as an indicator of performance of any economy to basically determine the borrowing capacity for loans from them for implementing the Structural Adjustment Programme.

We need to change the mind set of our leaders from beggar thy neighbor to altruism - the principle of thinking and acting for others.

Professor (Dr.) M.M.Goel
ICCR Chair Professor of Indian

We welcome comments from readers. Send them to focusopinion@koreatimes.co.kr — ED.