

The Institutional Pressure on the Adoption of a HRM Practice and the Channels for the Interactions with Environment in the Adoption Process

Hee-Eun Jang*

I investigated the determinants of a compensation practice called the peak wage system (PWS) in Korea. This study is based on 822 workplaces from the database of Workplace Panel Data during 2005–2009. Previous research has disregarded the role of the social and political identity of the organization in designing and deciding to adopt human resources management (HRM) practices. In order to explain the mechanisms that organizations use to select, change, or abolish certain rules or formal structures, many studies have focused on market influences or assumed homogeneous institutional environment where an organization is situated. However, this paper suggests that the institutional environments is multi-facet and its effects on individual organizations would also be different depending on which facet the organization confronts with. In particular, when choosing management practices, the organization tends to refer political pressure from institutional environment and other organizations which have similarity in terms of organizational positions and identities. The empirical findings regarding the antecedents of PWS's adoption show that institutional factors, like public sector affiliation and union affiliation, play a significant role in adoption decision. In addition, it demonstrates that whether other identical organizations, in respect of organizational status and union affiliation, establish the practice also has significant impacts on the adoption of focal organizations.

1. Introduction

What factors motivate an organization to change? The traditional approach in the field of organizational science has focused on the calculative and rational aspects of organizations. Minimization of the cost and maximization of the utility are the principles for decision-making about whether the organization needs to change (Chandler, 1984; Pfeffer and Salancik, 2003, Williamson, 1985). However, students of the sociological perspective have severely criticized this traditional perspective on organizations due to the fact that the behavioral assumptions of this

* Ph.D. Candidate in Management, Graduate School, Yonsei University, greenstar@yonsei.ac.kr

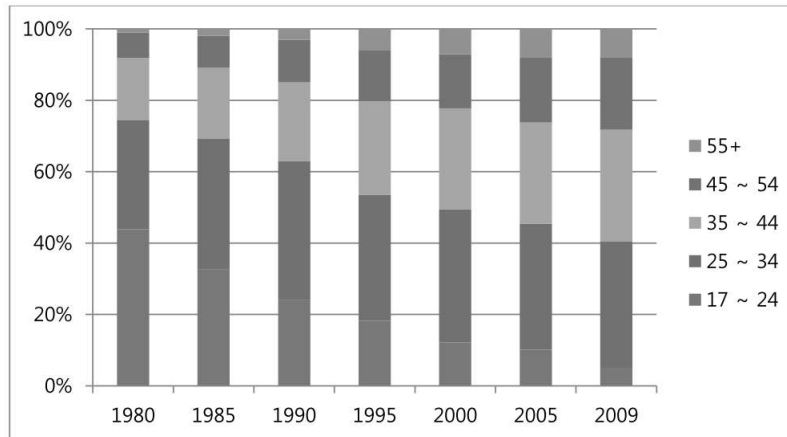
economic approach are too simplified and unrealistic, and thus they restrict more concrete and detailed descriptions of organizations. Furthermore, the economic approach has also been criticized because it disregards the fact that no matter how calculative or rational it is, as a socially embedded entity, the organization cannot stand alone without its specific institutional environment and social-cultural norms of organizations (DiMaggio and Powell, 1983; Meyer and Rowan, 1977; Polanyi, 1957; Zucker, 1987).

However, prior research considering the role of institutional environments has assumed that the institutional environments are homogeneous and have treated organizations as passive social entity which simply accept the effects of the environments. And thus, they put little attention to the question about how an institution could obtain legitimacy from organizational actors and the political aspects and dynamic social interaction between actors in this legitimization process. In this respect, recent research of neo-institutional theory extends their attention into the conflicts among different institutional logic, shift from incumbent institutional logic into challenging one, different institutionalized process under the segmented institutional environment (Dougherty and Heller, 1994; Kraatz and Zajac, 1996; Lounsbury, 2002).

In this study, I try to articulate the impacts of social-political factors in decision-making regarding organizational change. Focusing on the adoption practices of human resources management (HRM), I have identified which factors are significant in explaining the adoption process. This study examines the characteristics of organizations that are early adopters of the Peak Wage System (PWS), which is the strategy for coping with the problems of an aging society in business fields. Through empirical testing, I find that in certain contexts, social-political factors account for the behavior of organizations better than economic reasons do. Moreover, the institutional environment is segmented along political identity and structural position in market rather than unidimensional. I anticipate that this theorization of the actors' roles and their relations complements the economic-rational approach and neo-institutionalism in organizational theory.

This paper is organized as follows. First, I introduce the PWS in the Korea context and elaborate the variables. Second, I provide an overview of the theoretical debate about social-political views of organizations, outlining the drawbacks of existing theories regarding settlement and diffusion processes of business practices and hypothesizing about two competing logics. Finally, I empirically tested the importance of social-political approaches and its and then discuss the results.

Figure 1
The Trends of Aging in the Organizations



Source: the National Statistical Office

II . INSTITUTIONAL CONTEXT AND HYPOTHESES

1. Institutional Context

The population of Korea has experienced unprecedentedly rapid aging. Korea is among the many countries in which people aged 65 and above have accounted for more than 7% of the entire population since 2000. The driving forces of this transition in population structure are a consistently increasing life expectancy and a strikingly rapid decline in birth rate. According to the National Statistical Office of Korea, in 2005 the aged population reached 4.36 million, which was 9.3% of the nation's overall population. However, the more remarkable phenomenon is how fast Korea has changed from an aging into an aged society in which elderly people exceed 14% of the population: it has only taken 13 years. The pace of aging in Korea is even more rapid than that in Japan. In fact, the change in the population structure of Korea is being touted as one of the country's most pressing and delicate social problems (Chang, 2003; Phang, 2004).

With this rapid aging of society come considerable social and economic costs, such as a threat to stable economic development and a big burden on the social welfare system due to the less economically active population. And the business area is not an exception to the problems resulting from the aging of society. Figure 1 shows trends of aging in the for-profit-organization's internal population structures. Conforming to overall aging trends, the portion occupied by older employees has been consistently increasing. Especially given that

Korean firms have traditionally had strong seniority systems, the overall aging of society appears to augment significantly the burden of labor costs on individual firms. Moreover, damaged firm competitiveness is also a critical issue, because usually older workers are less productive than younger ones. Because of the aging work force, therefore, Korean firms have responded in most cases by dismissing older employees, and, in some cases, by bearing increased labor costs.

Without sufficiently effective retirement programs and social welfare systems, however, simply dismissing senior employees in order to save labor costs causes other managerial problems since younger and middle-aged employees might even curtail their commitment to the company. Thus, many HR managers, policy makers and researchers have argued that it is important for Korean firms to cope with the aging population by minimizing the discrepancy between wages received and actual productivity, while also securing the employability of senior employees.

From this point of view, the Peak Wage System (PWS) has attracted attention of HR managers, labor unions, and policy makers. As a kind of HRM practice, PWS has been widely adopted in Japanese firms in response to the aging work force. It is being considered in Korea as an alternative system to lower the cost of retaining older employees with long tenures. The PWS is defined as a new compensation system which reduces the wages of senior employees after a certain age on the premise that a company guarantees job security until or above retirement age. It can be categorized several ways, but the most dominant type promises job security above retirement age in return for a decreased wage. For example, Woori Bank adopted PWS in 2004, the very first in the bank industry to do so. Under the newly adopted wage system, senior employees of Woori Bank could choose whether to retire from the company or remain and be subject to PSW at retirement age, 55 years old. Those who decide to remain work until the age of 60 and are paid 70% of their original wage in the first year. Pay is gradually decreased every year thereafter.

The HR professionals and the Korean government describe this strategy as a means to achieve a win-win outcome between labor and management. Yet institutional shift from seniority-based wage systems into new wage system is still required to come to a political resolution or compromise among the relevant social actors: management, labor unions, and the government. Actually, when it was first introduced in Korea, there were fiery debates about the principle of the PWS among the relevant social actors. Since there was no precedent to which to refer, it was not convincing that both management and labor would receive reasonable gains from the PWS to begin with.

Under the seniority-based wage system, its characteristic makes the PWS suspicious for

employees. Employees work usually more productively at an earlier age, exceeding their wage level, then they will be compensated later as much as they had invested effort by higher wages than their actual productivity in certain years later (Altonji and Williams, 1997; Grund, 2008; Haider and Solon, 2006; Skirbekk, 2004). Thus those who expect higher salaries in return for their previous efforts see the PWS as a means to justify and to enable cost reduction strategy of management for profits. Likewise, some labor unions oppose to introduction of the PWS, for it is thought for them to be a strategy to unfairly reduce employees' share and refuse to pay for the already invested efforts of the elderly employees. Especially, under conditions where the labor-management relationship is hostile or the employees do not trust the management, employees are more reluctant to accept new HRM practices like the PWS.

Not only that, it is not promising even for many companies, because they already have alternative devices to control the increase in wage resulted from aging workforce, such as dismissal, early retirement and introduction of non-permanent worker. Even though it may cause employees' negative work attitudes and lower job satisfaction, it appears to attractive ways for many companies than establishing new wage system (Koo, 2009; Lee, 2002; Park and Kim, 2009) Thus, without proper social guidelines or regulation of the PWS, it may not easily diffuse throughout Korean firms. In this situation, the government, as an arbiter, is the most willing to establish the PWS in Korean firms, utilizing whatever diverse devices they can mobilize. The government is also providing financial support for the introduction of the system to extend employment of aged workers in preparation for an upcoming aged society.

2. Theory and Hypotheses

When it comes to adoption decision of business practices, it is the most common idea that organizations adopt certain business practices which appear to be economically beneficial to them. This approach, known as the economic-rational approach, puts preliminary emphasis on the outcomes of adoption of new practices in the light of firms' financial performance, which is based on a function of revenue and cost (Chandler, 1984; Lie, 2006; Pfeffer and Salancik, 2003, Williamson, 1985). From this economic perspective, profit maximization and improvement of efficiency provide the fundamental motivation that triggers an organization to make a decision to adopt or abandon certain practices.

In the case of HRM practices, it is also argued that the calculative and rational reasoning of cost-benefit analysis is critical to their adoption (Gooderham, Nordhaug, and Ringdal, 1999; Martin, Beaumont and Staines, 1993; Subramony, 2006). When HR managers anticipate that the adoption of certain HRM practices will have significant economic value, they are more

motivated to adopt them, regardless of institutional differences. Regarding the adoption of the PWS, it is critical for companies with the PWS to be able to maintain competitiveness by adjusting the wages of senior employees according to their productivity. As the economic-rational approach, it could be thought that companies under stronger pressure from increased labor costs will be more likely to adopt the PWS, expecting that it will reduce costs and improve profitability at the corporate level. Because the gains from the PWS help employees as well as management, the more economic benefits there are, the more inclined companies will be to adopt the PWS.

Hypothesis 1: The expected economic benefits will lead to the adoption of a new HRM practices.

The economic-rational approach considers increased efficiency through cost minimization as the most important impetus for the adoption of organizational practices. Although this approach is the dominant perspective about organizational change, it has been criticized for its overly simplistic assumptions about human beings and its economic reductionism (Lie, 2006). Students who underscore the role of institutional environment and social pressure surrounding an organization argue that the organization is not a purely rational entity, and that mechanisms of organizational change are not always economically driven. Rather an organization may adopt or maintain institutionalized practices to achieve legitimacy for the higher levels of legitimacy provides access to various resources, from financial resources to regulatory approval (Pfeffer and Salancik, 1978). Eventually it will be conducive to survival and performance of the organization (Ruef and Scott, 1998).

Regarding the adoption of HRM practices, this argument is useful to explain how some practices are diffused and how the institutional environment is involved during this process. It can be expected that organizations would adopt a HRM practice if they feel pressure to adopt it from the institutional environment, or they recognize it as “appropriate behavior” (DiMaggio and Powell, 1983; Meyer and Rowan, 1977; Zucker, 1987). Otherwise the adoption of a certain practice can also hamper their legitimacy when the organization attempts to establish a new practice, which is inexperienced or inconsistent with its own organizational culture (DiMaggio and Powell, 1983; Meyer and Rowan, 1977).

Scott (1995) categorized legitimacy of institutions into three types according to the its source: the regulative, the normative, and the cognitive. The regulative legitimacy comes from regulations, sanctions, and monitoring. The normative legitimacy can be obtained through the norm and values to define the appropriate behavior of firms. The cognitive legitimacy refers to

organizational practice maintained because it is taken for granted as natural and appropriate one. And I shall examine in this paper which factors motivate the firms to adopt new HRM practices with considering the bases of these three legitimacy and its effects on the organizations' decision-making.

The regulative environment may strongly influence what HRM practices are dominant (Jenkins and Wendt, 2006; Zucker, 1987) and this is definitely true in Korea. Since Korea has historically experienced government-driven economic development, it is not peculiar that the Korean government has intervened strongly and directly in the formation of HRM practices and their legitimization. Strong governmental intervention shapes HRM practices and provides "good followers" with sufficient resources. Thus, government-endorsed practices are a source of appropriateness and legitimacy, even for for-profit organizations embedded in the market.

Although new HRM practices give rise to uncertainty, organizations can sufficiently reduce this by adopting business practices consistent with the direction of government. As an important political actor, the government is also involved in the process of adopting HRM practices. One example of the diffusion of HRM practices is the public sector, where it is part of government policy. Whether a company belongs to the public sector or not is a way of identifying the more direct influence of the state. This is a reasonable concern, since most for-profit organizations in the public sector cannot be free from the control of the state in Korea. The difference between private and public sectors displays the power of the state beyond the market logic. Usually the public sector has lower levels of uncertainty about the adoption of new HRM practices. Further, with the support of the government, organizations in the public sector act as models that firms in the private sector can learn from and imitate. In sum, public sector organizations are more likely to adopt new practices when they conform to government policy.

Hypothesis 2a: The companies in the public sectors are more likely to adopt the PWS.

In the light of normative legitimacy, the visibility of an organization may be great concern in the context of adopting new practices. The attempt that an organization introduce newly introduced HRM practices, such as the PWS, produces inconsistency and discrepancy with established norm about appropriate compensate system and breaks the expectation of the diverse social actors and audiences in the institutional field. So, when it tries to adopt half-fledged or illegitimate organizational practices, it may drop in the normative legitimacy of the organization. And it is for the highly visible organizations that the pressures to keep existing norm of the compensation system are even stronger, because they receive more

attentions from the public and the press (Ahmadjian and Robinson, 2001). Thus, the organizations with high visibility are more likely to avoid accepting new organizational practice that might violate the existing norm and culture. In this way, the companies with high visibility, because of its size, status, or reputation, are less likely to adopt the PWS.

Hypothesis 2b: The larger the companies in size, the less likely to adopt the PWS.

New institutionalism has provided an alternative explanation, illuminating aspects of firm decision-making neglected in the traditional approach (Fligstein, 1996). However, it shares some theoretical limitations with the economic approach because the role of certain actors has been disregarded in both and social actors have been interpreted as passive entity which simply accepts the effects of the environments. And other unaddressed questions include how the institutional environment was formed and how it could be changed. I suggest that power relations and political negotiation should be considered in a theoretical context to describe the dynamic processes of HRM practice adoption. If powerful forces in society conflict each other regarding an institutional project and a clear configuration of the institutional environment is hard to define since there would be diverse responses to certain practices. In addition, variously modified versions of practices, rather than a unitary one, would be applied to the actual field of business. In this situation, it would be less possible to adopt the new practices unless the normative concepts concerning the new practices reach on the agreement by transcending the constraints of conflicting political identities.

In the case of HRM adoption processes, diverse actors react differently to various practices based on their interests and political identities. Sometimes the establishment and diffusion of an institutional environment requires collaboration between actors with different economic and political interests (Dobbin, 2005; Fligstein, 1996). Where management and labor have developed harmonious relations, the organization which attempts to adopt a practice will face little resistance from labor unions. Although the practice is not fully developed and inexperienced for the organizations, the cooperative atmosphere among stakeholders would be less likely to cast doubt on the introduction of the new HRM practices than the distrustful and antagonistic relationship would be. This is because collaboration between actors may make actors see each other as a trustworthy partner and share a similar normative evaluation and thus may prevent the introduction of new HRM practices from curtailing the base of legitimacy.

Before successfully achieving the establishment of the PWS, the organization needs to build harmonious relationship with the related actors, but it is not easy to overcome reluctance of labor unions, which have become accustomed to current compensation system. Specifically when

the political identity that the union conveys is quite different from that of the management, it would be even more difficult to reach on a compromise in order to adopt the PWS.

In Korea, there are two nationwide union affiliations, the Korean Confederation of Trade Unions (FKTU) and the Korean Confederation of Trade Unions (KCTU). They have gone through historically dissimilar developments and have shaped disparate political inclinations and attitudes in industrial relations. The FKTU was under the control of the authoritative government and colluded with management rather than employees in the past. Also they have traditionally taken pro-management and pro-government positions. On the contrary, the KCTU was organized with the political democratization of Korea while refuting the control of the government and management and criticizing the docility of the FKTU. So the KCTU has shown more or less antagonistic attitude toward management and government and has been inclined to use militant devices rather than compromise (Lee, 2007; Park and Lee, 1995). Based on these differences in political positions of union organizations, I could anticipate that the unions would show divergent response to the attempt of management to establish the PWS; the FKTU would be more favorable than the KCTU. Therefore, I suggest the possibility for an organization to institute the PWS is dependent upon which nationwide union affiliation the organization belongs to, since the agreement of the union will be vital for the company to draw the normative legitimacy from the new compensation system.

Hypothesis 2c: When companies have union affiliation to the FKTU, they are more likely to adopt the PWS than when companies have union affiliation to the KCTU.

The another missing point of prior research in neo-institutionalism is the understanding about the fact that institutional environments are complex and heterogeneous rather than unitary and homogeneous. In order to describe more completely the process about how an institution could obtain legitimacy and organizations interact with the multi-faceted institutional environment, recent research of neo-institutional theory extends their attention into the conflicts among different institutional logic, logic shift from incumbent institutional logic into challenging one, different institutionalized process under the segmented institutional environment (Dougherty and Heller, 1994; Kraatz and Zajac, 1996; Lounsbury, 2002). Thus the adoption and diffusion of a business practice cannot be easily attributed to its legitimacy and dominance.

With this in mind, I shall articulate which dimensions of institutional environment have greater influence on the diffusion of HRM practices by focusing on the characteristics of knowledge and information shared among organizations. I assume that the interactions among the organizations are mediated through the transmission of knowledge which conveys the

interpretation and belief about organizational practices. The dimension activated in this interaction may be determined by the characteristics of the knowledge, then the significance of the institutional environments to the adoption of the practices would be various along with these dimensions. And the similarity shared by organization at each dimensions would spawn similar response and decision regarding the organizational practices.

Then, why is the similarity of organization so important for transfer of knowledge, which mediates the social interaction between organizations and may determine the behaviors of the organizations? First of all, because of relevancy of knowledge, the propensity for organization to refer to the similar organizations should become more evident. This is because if knowledge is more relevant to the condition encompassing the organizations, they may be able to understand it more easily and apply it more adequately (Cohen and Levinthal, 1990). Furthermore, the trust in knowledge gained from other organizations is also significant (Beckman and Haunschild 2004; Lane and Lubatkin, 1998; Peteraf and Shanley, 1997). When organizations share similar characteristics, I expect that they are more likely to interact with each other than with different organizations. And these frequent contacts among the similar organizations will form stronger ties and more faithful relationships among them. When considering the uncertainty in inter-organizational relationships, the trust in knowledge may be a strong motivation for learning (Kraatz, 1998). Accordingly, when an organization absorbs information and knowledge from others with similar identities, it trusts the value of the knowledge. Its tendency to learn from the similar organization will again increase.

From these theoretical arguments, I propose three dimensions that divide the environment surrounding the organizations, i.e. position in status hierarchy among organizations, strategic orientation, and political identity. I argue that the organizations would show different reaction and make different choice as to the adoption of the practices according to the differences in these dimensions, instead of that they just follow the given by unitary institutional environments. It can be said that the organization would be more influenced from other organizations which are similar in respect of ranked status, strategic orientation, and political identity. Thus, I hypothesize that the companies are more likely to adopt new HRM practices when other companies, sharing similarities with them, establish it.

Hypothesis 3a: The companies are more likely to adopt the PWS, when other companies which are ranked in similar status adopt it.

Hypothesis 3b: The companies are more likely to adopt the PWS, when other companies which orient similar strategic choices adopt it.

Hypothesis 3c: The companies are more likely to adopt the PWS, when other companies which share similar political identity adopt it.

III. Method and Analysis

1. Method

A. Data

Data were derived from the Workplace Panel Data (WPD) for the period 2005 and 2009. The WPD is divided into a survey for HR personnel, industrial relations personnel, and representatives of labor unions. Up until now, the WPD has been the only rich data source to contain the information related to the PWS. Moreover, using the WPD is convenient for research and helps to minimize methodological problems, because the data set is consistent for several years and deals with other useful information, including HR policies and company financial information.

The data included 1236 samples, which were referred to as workplace units. I understood 'workplace' to be interchangeable with 'firm'. There were 1125 workplaces in the private sector and 111 workplaces in the public sector. The numbers of workplaces that established the PWS was 39 in 2005, 79 in 2007 and 67 in 2009. Finally, 822 workplaces were analyzed and 414 workplaces were omitted because of missing values.

B. Dependent Variable

The main dependent variable in this study measured whether a company adopts the PWS or not. As a dummy variable, it was equal to one if the firm utilized PWS and zero otherwise. Additionally, I also used the following more specifically categorized options as dependent variables: "We've already adopted the PWS", "We are in the process of adopting the PWS", "We are thinking of adopting the PWS", and "We would not adopt the PWS."

C. Independent Variables

Independent variables included several variables representing three kinds of concepts. First of all, related to the economic-rational approach, I utilized the average wage, the ratio of senior

employees, and capital intensity, which were directly related to the amount of labor cost. In particular, I used capital intensity as a measurement to show the effect of labor intensity because it represents the relative significance of labor in production process. But it is necessary to interpret the result inversely and thus the lower capital intensity, the stronger motive to reduce high labor costs. The average wage was calculated by dividing the total labor cost by the number of employees. The ratio of senior employees to non-senior employees was measured by the number of employees above 50 years compared to the total number of employees. Capital intensity is the value of tangible assets divided by total assets of a firm. Finally, the salary step system was included in the analysis as a binary variable, equal to one if the firm was based on PWS and zero otherwise. This measurement clarifies the effects of the seniority-based wage system on the adoption of the PWS. According to Hypothesis 1, if the average wage and labor intensity are higher, the portion of the elderly employees is larger, or the firm is based on the seniority system, the workplaces would be more likely to adopt the PWS.

Secondly, as institutional factors, I took several variables into account to describe the social context of Korea. First, public sector affiliation was included as dummy variable, equal to one if the firm was belong to public sector and zero otherwise. Also, the union affiliation was measured by dividing it into three binary variables, the FKTU and the KCTU. Additionally, I considered as to whether Labor and Management council existed or not, because in some workplace it might function like union under the Labor and Management Council Act. Then, I made measurement of visibility, based on the ranking of sales in each industry. If a workplace has top 20 percent of its industry in sales, it was coded as one, which having higher status and otherwise zero.

Finally when it comes to the effects of similar organizations, I measured how many other similar workplaces located in same industry adopt the PWS. First, workplace had similar status was defined as the case in which a gap in ranking values between focal workplaces and other workplaces in the same industry was less than four. And ranking was determined based on the volume of sales. Second, the similar workplace in strategic orientations was defined as one which made same strategic choice with focal workplaces among three possible options: “We try to provide new products or services the most rapidly”, “We are not first mover but try to follow and catch up the first mover”, “We pursue to exploit the advantage in existing market.” Third, the similar organizations in political identity were defined as the one which belonged to same union affiliation among the FKTU and the KCTU, or affiliated with none of the groups in the same way that focal workplaces did.

D. Control Variables

I introduced several control variables into the analysis to account for industry and firm characteristics. I included size variable after dividing firm size into three groups based on the number of employees. And firm age was calculated as the natural logarithms. The financial performance was measured as financial benefits against costs, like general and operational costs. I controlled for inter-industry differences by including industry dummy variables. And when considering effects of similarity shared by workplaces, in order to rule out the effects of pressure coming from dominant tendency of each industries, I controlled the proportion of workplaces which adopt the PWS in each industry except focal workplaces.

2. Analysis

The empirical model identifies the determinants of adoption of HRM practices and evaluates the relative power of various economic factors behind that adoption. It can also be interpreted as a question about what makes firms adopt the PWS, the determinants of the introduction of the PWS. I used a panel logistic regression model since the dependent variable was coded as binary. And I utilized random effect model to control unobserved heterogeneity and the effects of repeated observations on the same firm across year.

Additionally since in the original data the variable includes four possible values, I used a multinomial logistic regression model when analyzing the different progresses in adoptions as dependent variables. The results showed that the only significant difference was whether the firm adopts the PWS or not, and other progresses were not statistically distinguished. Also I verified that there was no statistically meaningful difference between the different progresses in adoptions via the logistic regression test. Yet the empirical study presented here only convey results of the panel logistic regression on the adoption of the PWS.

IV. Results

1. Summary Statistics

Table 1 presents the descriptive statistics for both the dependent and independent variables. Of the 822 observations, on average 53 workplaces established the PWS (6%), 62 workplaces were located in public sectors (7%), and 584 workplaces were based on salary step systems

(71%). Regarding union affiliation, 212 workplaces belonged to FKTU, 99 workplaces belonged to KCTU, and 646 workplaces established the Labor Management Council. When looking over the correlations between variables, the values are not as high as to present concerns about multicollinearity.

<Table 1> Descriptive Statistics and Bivariate Correlations

	Mean	SD	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
1 Peak Wage System	.06	.25																		
2 Wage	46.26	18.84	.12																	
3 Capital Intensity	458.6	2813.8	-.02	.16																
4 Elderly Worker	.12	.14	.03	-.06	-.02															
5 Salary Step System	.71	.45	.04	.16	.04	.02														
6 Public Sector Affiliation	.07	.26	.11	.09	-.04	.01	.07													
7 FKTU	.26	.44	.16	.12	.00	.21	.15	-.04												
8 KCTU	.12	.33	-.03	.24	.09	-.03	.09	.26	-.22											
9 Council	.79	.41	.06	.09	-.02	.04	.13	.10	.19	.11										
10 Visibility	.22	.41	.08	.30	.07	-.04	.14	.04	.11	.17	.08									
11 Industry Average	1.16	3.01	-.02	.04	.09	.09	.00	.00	.01	.01	.01	-.06								
12 Similar Status	-.27	.57	-.15	-.14	.02	.03	-.03	-.03	-.06	-.04	-.04	-.09	.06							
13 Strategic Position	.04	.08	.08	.05	-.05	-.03	-.01	.00	-.05	.04	.03	-.02	-.07	-.26						
14 Same Union Affiliation	.05	.10	.19	.14	-.04	.07	.07	.09	.32	.02	.09	.05	-.05	-.31	.27					
15 Size1	.31	.46	-.04	-.07	-.01	-.01	-.03	.03	-.01	-.03	.11	-.16	.01	.02	.01	-.03				
16 Size2	.16	.37	.03	.05	.01	.06	.07	-.06	.14	.01	.09	.06	.01	-.06	.00	.05	-.29			
17 Size3	.23	.42	.11	.27	-.05	.00	.11	.08	.15	.18	.14	.39	-.01	-.09	-.01	.10	-.37	-.24		
18 Financial Performance	.04	.27	.10	.05	.00	.02	-.03	-.07	.05	-.04	.04	.00	.00	-.02	-.05	-.02	.02	.02	.03	
19 Age	2.85	.82	.11	.23	-.07	.19	.13	-.07	.25	.06	.07	.14	.00	-.09	.04	.13	-.05	.13	.23	.05

2. Findings

Table 2 presents the results of the panel logistic regression analysis on the adoption of the PWS. Model 1 demonstrates how well the four economic-rational factors predict the adoption of the PWS. In the Model 1, only the average wage has significant and positive effects on the adoption of the PWS, consistent with Hypothesis 1. The firms were more likely to adopt when they provided relatively higher wage to their employees, but the labor intensity, the salary step system, and the proportion of elderly employees do not have statistically significant effects.

On the other hand, Models 2-5 provide the institutional impact on business decisions of adoption of the PWS. In the Models 2-4, the public sector affiliation and union affiliation are significantly and positively associated with adoption of the PWS, supporting Hypotheses 2a, and 2c. Even though the results of union-affiliation were partially supported but the FKTU and the KCTU display opposing effects, as expected. The model 5 indicates the effect of visibility was insignificant, so Hypothesis 2b was not proved. Models 6-8 include the similarity of status, strategy and political identity. The effects of similarity in status and political identity on adoption were supported, but strategic similarity has insignificant effect.

<Table 2> Panel Logit Analyses of the Adoption of Peak Wage System, 2005-2009

Model	1	2	3	4	5	6	7	8
Economic Factors								
Wage	.0280** (.0124)	.0279** (.0118)	.0300** (.0120)	.0291** (.0130)	.0300** (.0129)	.0270** (.0124)	.0266** (.0124)	.0258** (.0125)
Capital Intensity	-.000137 (.00021)	-.000127 (.000204)	-.000123 (.00021)	-.000157 (.00023)	-.000137 (.00023)	-.000143 (.00023)	-.000134 (.00023)	-.000122 (.00023)
Elderly worker	1.221 (1.715)	1.069 (1.713)	.411 (1.733)	.550 (1.787)	1.064 (1.854)	.986 (1.831)	.994 (1.824)	.729 (1.821)
Salary Step System	.0445 (.462)	.0284 (.453)	-.157 (.454)	-.180 (.467)	-.189 (.467)	-.140 (.459)	-.129 (.458)	-.142 (.459)
Institutional Factors								
Public Sector Affiliation		2.375*** (.905)	2.467*** (.923)	2.526** (.998)	2.511** (.986)	2.513*** (.936)	2.533*** (.930)	2.488*** (.940)
Union Affiliation			1.012** (.509)	1.024* (.545)	1.004* (.540)	.911* (.521)	.926* (.518)	.632 (.548)
KCTU			-1.177* (.709)	-1.187 (.723)	-1.165 (.721)	-1.191* (.712)	-1.236* (.713)	-1.370* (.731)
Visibility				.472 (.507)	.408 (.508)	.344 (.500)	.331 (.498)	.348 (.502)

<Table 2> continued

Model	1	2	3	4	5	6	7	8
Imitation Dimension								
Similar Status						-.661** (.257)	-.592** (.264)	-.456* (.275)
Strategic Position							2.502 (2.290)	1.786 (2.385)
Same Union Affiliation								3.036* (1.705)
Control Variables								
Size1	.193 (.651)	.114 (.628)	-.0473 (.632)	-.0775 (.653)	-.0794 (.649)	-.0803 (.632)	-.0700 (.629)	-.0708 (.629)
Size2	.653 (.744)	.582 (.714)	.334 (.734)	.220 (.775)	.264 (.772)	.151 (.756)	.180 (.752)	.185 (.755)
Size3	1.258* (.723)	1.102 (.671)	.815 (.692)	.647 (.764)	.678 (.760)	.595 (.732)	.633 (.729)	.671 (.737)
Financial Performance	2.315** (.961)	2.306** (.953)	2.073** (.943)	2.186** (.986)	2.154** (.977)	2.187** (.957)	2.199** (.956)	2.330** (.974)
Age	.839** (.397)	.861** (.365)	.725** (.364)	.759* (.390)	.744* (.386)	.716* (.368)	.702* (.365)	.705* (.367)
Council			.479 (.520)	.485 (.528)	.474 (.526)	.446 (.522)	.445 (.523)	.427 (.523)
Industry Average					-.205 (.167)	-.181 (.162)	-.179 (.163)	-.177 (.165)
Industry					(not reported)			
Constant	-3.72 (7,664)	-34.68 (26,645)	-33.52 (21,728)	-32.41 (10,250)	-32.36 (11,590)	-33.03 (21,956)	-31.20 (9,190)	-28.14 (2,235)
Log of the variance	2.379*** (.347)	2.333*** (.245)	2.250*** (.289)	2.296*** (.437)	2.280*** (.427)	2.200*** (.374)	2.186*** (.366)	2.183*** (.392)
Observations	1,708	1,708	1,708	1,708	1,708	1,708	1,708	1,708
Number of groups	822	822	822	822	822	822	822	822

***p<.01,**p<.05,*p<.1;

Standard errors in parentheses; t-test are one-tailed; coefficient for industry dummy variables are not reported.

V. DISCUSSION AND CONCLUSIONS

These days' Korean firms have great difficulty in dealing with aging populations under seniority-based wage systems. As the demographic structure in the business field is getting

older, many policy makers and HR professions have made the PWS required in order to curtail the burden of high labor costs. Thus, for many researchers, the PWS has been understood as an economic choice just to decrease the labor costs of retaining senior employees. However, the empirical results of this research demonstrate that this market logic is not enough to explain the causes of the adopting the PWS.

The results indicate that the effects of economic factors, such as the proportion of senior employees, the seniority-based wage system, and labor intensity, are not supported except for the average wage. By contrast, the results shows that institutional factors, including public sector affiliation and union affiliation, may be more significant and influential in firms' decisions to adopt the PWS than economic factors, while implying the critical role of social actors and social relationships. More specifically, results related to the public sector can be interpreted to signify the power of the state as a base of the regulative legitimacy, which may be strong enough to induce or regulate decision-making in a for-profit organization in a certain way. Further, the likelihood the workplaces bring in the PWS is affected by union affiliation of workplaces and its political stance. That is, when the unions are more prone to government and management the workplaces are more likely to adopt the PWS. Therefore, I conclude that the introduction and diffusion of HRM practices cannot be explained only by treating the for-profit organization as an economic entity.

Additionally, I dealt with what aspects or dimensions of institutional environments would emerge as important channel through which the ideas and evaluation about the PWS could be diffused. I proposed possible three dimensions, status, strategy and political identity, and the results show that similarity in status position and political identity have considerable impacts on the likelihood of adopting the PWS. This implies the institutional environment consists of various aspects and the diffusion mechanisms of organizational practice are susceptible to the complexity of the environment.

Admittedly, the relative impact of market and societal factors varies according to the social context and this study is based on Korean case, so the role of economic factors cannot be totally neglected and it is still open questions whether these results would apply to different social context. Moreover the more significant influence of institutional factors may be due to the fact that individual firms cannot rely on calculative and rational reasoning in early stage of the new practice. In other words, under the condition where they have to face great uncertainty in the possible outcomes of the adoption of the PWS and are unable to exactly identify the effects of such a change in compensation system, they are more likely to respond to non-economic factors. As the PWS becomes more generalized and established, however, economic-rational factors might have a more vital role on the adoption process. In addition,

although this study illuminates several aspects previously unnoticed in the research on HRM, there are also several limitations. First, because of the limitations of the data, I cannot effectively control for firm characteristics and other alternative explanations. Second, since the number of workplaces where the PWS has been adopted is low, the statistical results could be distorted in some cases. Despite this limitation, however, this empirical study demonstrates robust and consistent results across different model specifications and it provides interesting results in theorizing the political aspect of neo-institutionalism.

Reference

- Ahmadjian, C. L. and P. Robinson 2001, "Safety in numbers: Downsizing and the deinstitutionalization of permanent employment in Japan." *Administrative Science Quarterly*, 46, 622–654
- Altonji, J.G. and N. Williams. 1997. Do wages rise with job seniority? A reassessment, *National Bureau of Economic Research Cambridge*, Mass., USA.
- Beckman, C. M., P. R. Haunschild, D. J. Phillips 2004. "Friends or strangers? Firm-specific uncertainty, market uncertainty, and network partner selection." *Organization Science*, 15, 3, 259–275.
- Cappelli, P. 1998. The new deal at work. Harvard Business School Press Boston. Chandler, A.D. 1984. The emergence of managerial capitalism. *The Business History Review*. 58: 473–503.
- Chang, J. 2003. Labor Market Policies in the Era of Population Aging: the Korean Case, *Seminar on Labor Market Policies in an Aging Era, Korea Labor Institute*, Seoul, Korea.
- Cohen, W. M. and D. A. Levinthal 1990. "Absorptive capacity: a new perspective on learning and innovation." *Administrative Science Quarterly*, 35, 1, 128–152
- DiMaggio, P.J. and W.W. Powell. 1983. The iron cage revisited: Institutional isomorphism and collective rationality in organizational fields. *American sociological review*. 48: 147–160.
- Dobbin, F. 2005. Comparative and Historical Approaches to Economic Sociology. Pp. 26–48 in *The handbook of economic sociology*, edited by Neil J. Smelser and Richard Swedberg. Princeton, NJ: Princeton University Press.
- Dougherty, D. and T. Heller. 1994. "The Illegitimacy of Successful Product Innovation in Established Firms." *Organization Science* 5:200–218.
- Fligstein, Neil. 1996. The Logics of Employment Systems. Pp. 99–122 in *The Architecture of Markets: The Economic Sociology of Twenty-First-Century Capitalist Societies*. Princeton, NJ; Princeton University Press.
- Gooderham, P.N., O. Nordhaug, and K. Ringdal. 1999. Institutional and Rational Determinants of Organizational Practices: Human Resource Management in European Firms. *Administrative Science Quarterly*. 44.
- Grund, C. 2008. Age structure of the workforce and firm performance. *International journal of manpower*. 29: 410. Haider, S.J. and G. Solon. 2006. *Life-cycle variation in the association between current and lifetime earnings*, National Bureau of Economic Research Cambridge, Mass., USA.

- Hee-Soung, L. 2006. A study on the Law-Policy and Introduction Background of the Wages Peak System. *Korean Journal of Law and Policy*. 6: 603-623.
- In-Hyouk, K. 2009. A Study On The Structural Background Of Wage Peak System In The Korean Banking Industry. *Journal of Human Resource Management Research*. 16: 1-18.
- Jenkins, J.C., K.T. Leicht, and H. Wendt. 2006. Class forces, political institutions, and state intervention: Subnational economic development policy in the United States, 1971-1990. *American journal of sociology*. 111: 1122.
- Kraatz, M. S. 1998. "Learning by association? Interorganizational networks and adaptation to environmental change." *Academy of Management Journal*, 41, 6, 621-643.
- Kraatz, M. S. and E. J. Zajac. 1996. "Exploring the limits of the new institutionalism: The causes and consequences of illegitimate organizational change." *American Sociological Review*, 61:812-836.
- Lane, P. J. and M. Lubatkin 1998. "Relative absorptive capacity and interorganizational learning." *Strategic Management Journal*, 19, 5, 461-477.
- Lee, B. H. 2007. Militant unionism in Korea. *Strikes around the world, 1968-2005* case-studies of 15 countries, 155.
- Lounsbury, M. 2002. "Institutional transformation and status mobility : The professionalization of the field of finance." *Academy of Management Journal*, 45 : 255-266.
- Lie. J. 2002. The Concept of Mode of Exchange. *American Sociological Review*, 57: 508-523.
- Lippmann, S. 2008. The institutional context of industry consolidation: Radio broadcasting in the United States, 1920-1934. *Social Forces*. 86: 467-495.
- Martin, G., P. Beaumont, and H. Staines. 1993. Determinants of early and late adoption of management development practices: evidence from Scotland. *International Journal of Organizational Analysis*. 6: 132-145.
- Meyer, J.W.and B. Rowan. 1977. Institutionalized organizations: Formal structure as myth and ceremony. *The American journal of sociology*. 83: 340-363.
- Park, Y., & Lee, M. B. 1995. Economic Development, Globalization and Practices in Industrial Relations and Human Resource Management in Korea. *Employment relations in the growing Asian economies*, 158-193.
- Peteraf, M. and M. Shanley 1997. "Getting to know you: a theory of strategic group identity." *Strategic Management Journal*, 18, S1, 165-186.
- Pfeffer, J.and G.R. Salancik. 2003. *The external control of organizations: A resource dependence perspective*. Stanford University Press.
- Phang, H.N. 2004. Rapid ageing and labor force changes in Korea, *International Seminar on Low Fertility and Rapid Ageing*, organized by Korea National statistical Office and

- Korean Association of Population, Seoul.
- Polanyi, K. 1957. The Economy as Instituted Process. In *The Sociology of Economic Life*, edited by Mark Granovetter and Richard Swedberg, 1992. Boulder: Westview Press.
- Ruef, M. and W. R. Scott. 1998. "A multidimensional model of organizational legitimacy: Hospital survival in changing institutional environments." *Administrative Science Quarterly*, 43: 877-904
- Scott, W. R. 1995. *Institutions and Organizations*. Thousand Oaks, CA: Sage.
- Skirbekk, V. 2004. Age and individual productivity: A literature survey. *Vienna yearbook of population research*. 2004: 133-154.
- Subramony, M. 2006. Why organizations adopt some human resource management practices and reject others: An exploration of rationales. *Human resource management*. 45: 195-210.
- Sung-Joon, P. and K. Gi-Seoung. 2009. Korea's Wage Peak Systems: Current Condition And Problems. *Journal of Human Resource Management Research*. 16: 85-100.
- Williamson, O.E. 1985. The economic institutions of capitalism: Firms, Markets, *Relational Contracting*, New York.
- Zucker, L.G. 1987. Institutional theories of organization. *Annual review of sociology*. 13: 443-464.