

The Global Strategies and Employment Relations Practices of the Hyundai Motor Company in Korea and India

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Abstract

This paper examines the experience of the Hyundai Motor Company (HMC) managing its employees in a new plant it established in Chennai, India. The establishment of the Indian plant in 1998 marked an important attempt by HMC to 'relaunch' its globalisation strategy after an earlier failure to manufacture in Canada. The ability of HMC to adopt an appropriate employment relations strategy in India will be an important factor determining its success as a global manufacturer. A key issue facing the Hyundai Motor Company of India (HMI) is the role to be accorded to unions and employee representation in the plant.

Introduction

Although there is an emerging literature about global automobile manufacturing by US, Japan and European companies, and their employment relations, little attention has been paid to Korean auto manufacturers which have also been seeking to establish an international presence (Hill and Lee, 1998; Kochan et al., 1997; Kwon and O'Donnell, 2000). This paper examines the experience of the Hyundai Motor Company (HMC) establishing plants in Canada and India, as part of its globalisation strategy. It seeks to answer the question: 'to what extent has the Hyundai Motor Company (HMC) applied Korean approaches to employment relations, or adapted to local custom and practices in their plants in Canada and India?' HMC provides an interesting case as it has embarked on a long-term strategy of becoming one of the world's largest auto companies by expanding into new markets and establishing plants outside Korea. In order to achieve this goal, HMC has sought to develop effective and appropriate employment relations strategies for managing its employees in its overseas plants.

Background to the Hyundai Motor Company (HMC)

The Hyundai business group is one of Korea's oldest and most successful family-owned conglomerates known as 'chaebol' (Steers et al., 1989). In 1997, the Hyundai business group had over 60 subsidiary companies, more than 200,000 employees and accounted for approximately 18 per cent of Korea's Gross Domestic Product. In 2000, the Hyundai Motor

Company (HMC) and its subsidiaries were forced to separate from the Hyundai group as a result of government policies designed to reduce the size and influence of the chaebols. The Hyundai conglomerate was established by its founder, Chung Ju-Yung, in 1946 as an auto repair shop. This small business expanded into a construction company in 1947 with the establishment of the Hyundai Engineering and Construction Company (HECC). During the Korean War (1950-53) with government support, the Hyundai business group expanded into a number of other areas of activity such as ship-building and heavy machinery. These are key industries which enabled Hyundai to diversify into related businesses, expand in size and maximise economies of scale and scope.

The Hyundai Motor Company (HMC) began in 1968 as a complete knock down (CKD) assembler under an agreement with the Ford Motor Company. In 1976, HMC produced its first originally-designed model, the *Pony*, using a low cost strategy with more than 90 per cent of its parts being sourced locally. Other new models followed and HMC entered the US market in 1986 with the competitively low-priced *Excel*. During the late 1980s, however, the international auto industry experienced considerable restructuring due to oversupply, excessive production capacity and intense global competition. This gave rise to a number of strategic alliances between various auto companies via mergers and business partnerships. These were initiated to achieve economies of scale and to enhance the enlarged companies' competitive positions in the international auto market. This trend forced HMC to form strategic alliances with other companies in order to ensure its survival.

Studies of the Korean chaebol have tended to describe them as having similar characteristics to the pre-war zaibatsu in Japan: large, diversified, usually family-owned and managed conglomerates (Amsden, 1989). The chaebol, like the zaibatsu, have used a variety of means to

foster worker identification with and dependence on the company (Janelli and Yim, 1993). Hyundai, for example, used the dormitory system (originally established by Japanese enterprises in the textile industry) to allow close supervision and control over predominantly young workers (Cho, 1979). This was accompanied by hiring and training schemes as well as paternalistic welfare systems to foster dependency among the workers. Most chaebol also relied upon the moral persuasion of the founder to elicit worker compliance by promoting the concept that the good of the nation was based on the company's performance. The founder of Hyundai, Chung Ju-Yung, regularly exhorted his employees to embrace the 'Hyundai spirit'. Independent unions were not tolerated and were banned by the government until the late 1980s (Kearney, 1991). Yet worker dissatisfaction with both the paternalism of the chaebol and authoritarianism of the state gradually built up to breaking point and led to major industrial disputes and civil unrest resulting in the 'democratisation' of Korea in 1987 (Choi, 1985; Ogle, 1990).

As Kwon and O'Donnell (1999; 2001) have shown, workers in HMC appeared to be more compliant than those in other parts of the Hyundai group until the mid 1980s. Part of the explanation may be the relatively secure employment conditions at HMC, although some have argued that HMC workers witnessed the failure of strikes elsewhere and were more acquiescent with their conditions of employment (Bae, 1987). Furthermore, management in HMC and the Hyundai Heavy Industry group also used various means to oppose the rise of an independent union movement including physical violence, intimidation and the establishment of company unions. However, following reforms to labour legislation in the 1990s, HMC was required to negotiate with unions over wages and conditions. The HMC trade union also became a central force in the formation of the KCTU as the national peak council for the independent trade union movement.

In terms of the broad range of human resource policies and practices, however, HMC has continued to use various means to promote a convergence of interests between employees and management, while seeking to maintain control and authority over the workforce. The HMC union has been able to resist certain company initiatives to change wages and conditions, but HMC continues to control the basis on which selection and training of employees is conducted and there is still a strong degree of differentiation between management and the workforce. These employee relations are set out in Table 1 and a comparison is made between those that prevail in Korea compared with plants in Korea and India.

[INSERT - Table 1. here]

Hyundai's Experience in Canada

In cooperation with Mitsubishi, HMC opened its first overseas plant in Quebec, Canada, in 1985, in order to assemble the mid-sized front wheel drive *Sonata* model. The objective was to profit from HMC's initial success in Canada in 1984, with the *Pony*, when HMC became the largest auto importer in the country. Sales to Canada accounted for 30 per cent of HMC's production that year. By establishing a presence in North America, HMC sought to boost its sales and avoid the imposition of import quotas. HMC acquired a 400 acre Greenfield site from the town of Bromont in Quebec for the token payment of one Canadian dollar and received \$110 million in grants from the Canadian federal and provincial governments as part of HMC's total investment of \$325 million. In addition, the Quebec Department of Labour gave a \$7.3 million grant to HMC to assist with training the workforce over a three year period. HMC built both a paint and a press shop to increase North American content (an important criterion for exporting to the USA) as well as because of problems in gaining components from Korea due to labour problems and strikes at HMC's Ulsan plant. Yet, when the plant was finally closed in

1993, one of the major contributing factors was ascribed to HMC's failure to successfully manage relations with its Canadian managers and employees (Teal, 1995).

The Establishment of Hyundai Motor Company in India (HMI)

In 1996, five years after the closure of the Quebec plant, HMC established a 100 per cent owned subsidiary, the Hyundai Motor Company of India (HMI), to manufacture cars in India. It represented an investment of more than USD 450 million, at the time. Construction of a plant with the capacity to produce 120,000 passenger cars per year was completed in Chennai, Southern India, in 1999. By May 2000, the Chennai plant was producing 100,000 vehicles per year and had captured 14 per cent of the Indian market. HMI produced two models in Chennai: *Santro* (999c) and *Accent* (1,499c), both of which achieved approximately one quarter of their respective market segments during the first four months of 2000. HMI began its operation in Chennai with a workforce of 1,400 operating in a one shift production system in October 1998. By January 2001, the workforce had increased to 3,000 workers on a three shift system. It had become one of the fastest growing auto manufacturers in India and shared the lead with Ford of India in its market segments.

It is difficult to make a direct comparison between Chennai and the Quebec plant as it is larger in size and produces two models instead of one. Nevertheless, HMI has followed some similar industrial relations policies to the Canadian operation in that it has also sought to remain non-unionised. HMI has also implemented HR policies and practices which emphasize selection procedures and training programs designed to ensure that new employees are strongly integrated with the organisation. Like the Canadian plant Chennai is also strongly focused on mass production so that the work is segmented and routinised. However, given the lower labour costs in India, there is more reliance on labour-intensive methods and less use of automation.

Given the lower levels of education and skill among the Indian workforce, compared with Korea or Canada, there has been a much greater presence of Korean managers and technical advisers in Chennai, particularly during the first year or so of operation. The lines of demarcation between different segments of the workforce are also greater in India as the labour force is more segmented and there is a more hierarchical structure in the Indian company. The experience of the Hyundai Motor Company in India is analysed with regard to three areas: human resource policies and practices, industrial relations and the internal labour market arrangements.

(i) *Human Resource Policies and Practices*

HMI uses a variety of HR policies and procedures to align the attitudes of its employees with the corporate culture. Like other Korean chaebol, training programs within HMI emphasize the paternalistic nature within the company and the importance of developing a strong work ethic. New recruits are given two day basic orientation training before being allocated to a specific department. Most of the initial work skills are taught on the production line. There follows a job rotation program which exposes workers to other parts of the plant operations. As Chennai is a mass production plant, most of the jobs are fragmented into relatively simple, repetitive tasks and there is a highly detailed division of labour. Much of the training beyond basic skills development is used to promote employee loyalty and develop harmony at the workplace in order to avoid internal conflicts. Workers are also encouraged to participate in productivity campaigns, employee suggestion schemes and quality control systems. There is a Supervisor Development Program to enhance the skills of first line managers. At the executive level, there is a Management Development Program to enhance the capacity of managers to think strategically, manage their time effectively and improve work methods and quality.

The majority of workers at the Chennai plant are employed at the trainee level and it is anticipated that many of these will leave the company after three years (when the traineeship ends) in search of better wages and conditions. By maintaining high turnover at this level, HMI can keep wages down and retain a group of low paid trainees who are not permitted to join unions and can provide a 'buffer' should demand fall and the workforce needs to be quickly reduced.

Promotion procedures are slow and are aimed at cost minimisation, although employees with exceptional performance can receive rapid promotion. As a rule, it requires 19 years for production workers to rise to the highest level in their employment structure. There is a system of performance appraisal which varies according to the level of the position. When applied to the non-executive groups the emphasis of the appraisal system is on behavioural criteria such as discipline, attitudes to work, cooperation, punctuality and attendance. The system has been applied in a paternalistic manner and has led to some conflicts between production workers and management, although it was supposed to enhance competition between workers to achieve the highest performance ratings. Given the high dependence of production workers on variable forms of supplementary payments, it is not surprising that this system has led to conflicts.

Wages policy is the most critical factor in enabling HMI to achieve a 'cost effective' approach to labour management. HMI's goal is to minimise labour costs while providing management with considerable flexibility to link allowances to productivity improvements. The total wage package is comprised of four key elements: a base level amount, a cost of living component, house rental allowance, a flexibility allowance and a mixture of sundry other minor components (including travel, children's education, provident fund etc.). There is considerable variation in the ratio of different components depending on an individual's position in the hierarchy. Hence,

the base component of total salary varies from 60 per cent for managers to 30 per cent for production workers. For the vast majority of HMI employees, up to 40 per cent of their wages comprise variable components. According to HMI, this system helps to promote employee loyalty to the company.

The wages of HMI employees are adjusted annually through increments paid in April and the wage structure is reviewed every three years. During 2000, HMI came under pressure from its workforce to increase wages and a 20 per cent increase was granted to trainees and junior technicians. The wage levels for trainees and junior technical employees at HMI compare favourable with other multinational auto companies, but are superior to Indian companies in the auto components sector. However, by having the vast majority of their employees at the trainee level, HMI has been able to contain its wage costs.

The wages and salaries differentials between executive and non-executive employees have remained fairly constant over the first few years of HMI's operation in Chennai, with executives receiving approximately 6 times more than production workers. However, it is difficult to gain accurate information about senior executive salaries paid by HMI.

Anecdotal evidence from HMI and other automobile producers in India suggests that the foreign-owned companies share information about wage levels and generally maintain comparability so that they are not competing against each other in this regard. Hence, the variations between multinational auto companies operating within the Chennai area are minimal. However, there are significant wage differences between the component suppliers (mainly local Indian firms) and the foreign-owned assembly companies. Furthermore, wage levels in the Chennai area are generally lower than those in the northern industrial zones of India.

(ii) *Industrial Relations*

HMI has been strongly influenced by the experience of HMC in Korea. From the mid 1980s, with the emergence of militant unionism, HMC experienced considerable industrial conflict at its plants in Korea. There has been a great deal of external intervention in an attempt to resolve conflicts at HMC, with varying degrees of success. The experiences in Korea have conditioned attitudes among the senior managers at HMI. One of the principal reasons why HMC chose to locate its plants near Chennai in the south of India, was that unions were not as well organised as in some other parts of India.

The trade union movement is well established in India and is closely linked with the socialist movement. The Indian Industrial Relations Act provides a range of rights for workers and unions. The Act guarantees freedom of association and allows for multiple unions in workplaces. It also seeks to facilitate third party intervention in the workplace to resolve industrial disputes. In 2000, trade unions were organised in 24 of the 28 major car manufacturers in India, although not in foreign-owned or joint ventures, including Ford, Volvo, Toyota and HMI. There were two major strikes in the auto sector during the late 1990s. One was a strike over wages and compensation issues at the Ascot-Faridabad plant and lasted 70 days. The other was at Hindustan Motors over factory conditions and wages and was 30 days in duration (Bhaktavatsala, 1992).

During the first two years of HMI's operations in India, there were no organising efforts by unions or industrial disputes at the Chennai plant. However, as the plant became more established and HMI's market share and profitability increased, some production workers raised grievances concerning management practices. There were also complaints about labour intensification, low wages and limited opportunities for promotion. However, trainee workers,

who comprise half of the workforce at HMI, are not permitted to join a union or participate in industrial disputes, which reduced the pressure on HMI management.

Another source of tension within the Chennai plant has occurred between Korean managers dispatched to India from HMC in Korea, and local Indian management. An important contributing factor related to the management style displayed by some of the Koreans which the Indians felt was unsympathetic to prevailing customs and practices in India. They complained that their Korean counterparts frequently communicated with each other in the Korean language which excluded Indians from the decision-making process. For their part, a number of Korean managers claimed that the Indians lacked a strong work ethic and therefore had to be more strictly supervised in order to achieve the required levels of productivity. The Koreans also argued that the caste system interfered with the efficient operation of the plant because some Indian managers were appointed to positions in accordance with their caste position rather than on the basis of merit. The Indian management system was regarded as unduly paternalistic by some of the Korean managers.

HMI established a Works Committee, in 2000, with the objective of resolving conflicts and differences at the workplace without involving unions. The works committee comprises equal representation from both management and production workers. The Committee meets monthly and provides a forum in which disagreements over wages and conditions can be discussed and resolved. However, in the absence of a trade union, employees have little bargaining power in regard to management and the Committee has no means of enforcing its decisions. HMI management tends to use the Committee as a means for disseminating its policies among the workforce. The Committee does not have any jurisdiction to set wages or working conditions.

While HMI has remained union-free and has not experienced any major industrial dispute, strikes have occurred among component suppliers which are Korean joint ventures with HMI, including: Donghee, Pyungbuang, Hwasung and Samrib. The disputes have concerned wages, job security and welfare issues. The strikes have had adverse impacts on HMI's production efficiency as many of the companies have a monopoly supplier relationship with HMI. The resolution of these disputes has often required direct intervention by HMI.

(iii) Internal Labour Market Arrangements

From the initial establishment of the Chennai plant, HMI adopted a dual internal labour market which differentiated between managerial and production employees in relation to wages, promotion and welfare facilities. Initially, there were two classes of employees: executive and non-executive. In the executive group there were 11 categories while in the non-executive group there were 14 positions. Within the first year of production, however, the total number of employees increased from 1,503 to 2,320 and there was pressure from the workforce to provide greater wage differentials based on qualifications. Accordingly, the number of categories in the non-executive ranks was increased from 14 to 18 and two new classifications of junior engineer were introduced. The expansion in the number of layers within the non-executive group reduced some of the discontent about the limited status differentials in the organisational hierarchy. However, HMI placed restrictions on the number of promotions of workers to higher level categories. This is an important factor in the management of labour within the plant because trainees have only temporary employment status for the first three years and are not permitted to join unions. Hence, their opportunities to gain advancement are limited.

During the first year of operation, almost all senior decision-making positions at HMI were held by Koreans dispatched from HMC. The Korean managers not only were heads of division, with

responsibility for all key activities in HMI, but some were placed at the operational level to provide support and advice to middle level Indian managers and to coordinate management activities. As the number of total employees was increased during the first two years of operation, the ratio of Koreans to Indians in the plant changed from 1:19 to 1:46. However, most key roles remained under the control of Koreans. In the production division, the ratio of Koreans to Indians underwent more significant change, from a ratio of 1:26 in 1998 to 1:172 in 2000. This was in keeping with HMI's policy of becoming less reliant on Korean managers at the plant level.

(iv) The Role of Trade Unions

It is difficult to generalise about the role of trade unions in India. Ramaswamy (1998) emphasizes the diversity of labour-management relations between and within industries. There is a dearth of examples where harmonious relationships have prevailed between employers and unions over a longer period of time. The predominant approach by employers is either paternalistic or exploitative and relationships tend to be rooted in adversarialism. Organised labour accounts for less than 9 per cent of the India workforce and only 1 per cent of employees are covered by collective agreements on wages and working conditions. The trade union movement is split into about 16 government-recognised national and regional federations of trade unions split over ideological and other factional considerations, with exaggerated claims about membership strength. The ILO's *World Labour Report* (ILO, 1992: 64) summarised the situation as follows:

'Indian unions are very fragmented in many workplaces, several trade unions compete for loyalty of the same body of workers and their rivalry is usually bitter and sometimes violent'.

A new pattern of unionisation appears to be developing, however, as the focus of organising workers shifts from a regional or industry-based approach to independent unions at an enterprise level. This has been fostered, in part, by employers who regard enterprise-based unions as being less subject to influence by external political organisations and more likely to be concerned with the welfare and prosperity of their members within the workplace.

The legislative framework governing the organisation of trade unions is fragmented and confusing. The *Trade Unions Act 1926* is the main statute at the national level and provides for the registration of trade unions by any seven members. However, laws governing union recognition tend to be covered by state governments. While there is industry-wide bargaining in core industries, there has been a trend towards enterprise and plant level bargaining which has accompanied liberalisation and deregulation of the Indian economy since the early 1990s. Governments at both the national and state levels have been engaging in privatisation of the public sector as well as encouraging foreign direct investment. Not surprisingly, there has been a strong tendency for employers to promote managerial rights, to seek the suspension of trade unions rights, and to seek agreements with their workforce to promote structural adjustment policies which result in greater flexibility and reduction in labour requirements. Venkata Ratnam (1995) reports mixed success with many of the other companies 'finding it hard to reduce the levels of hierarchy and job classifications, introducing multi-task, multi-skilled work systems and variable pay depending on performance (Venkata Ratnam, 1995: 291).

HMI has been able to take advantage of changes in the economic and legislative framework in India to avoid trade unions and collective bargaining to date. However, there has been encouragement by governments for employers to engage in more extensive participation and consultation at company and shop floor levels. There has been legislation on *Joint Management*

Councils since 1956 and a new Bill has been introduced to encourage workers' participation at the board, enterprise and shop floor levels.

There have been similar developments in Korea where the *Labour Management Council* (LMC) system has been revised under 1997 amendments to labour law, known as the *Act for the Promotion of Workers Participation and Cooperation*. An LMC is now required to be established in each business or workplace with an equal number of members representing management and workers. The LMC meets once every three months and the management is required to report on a wide range of matters relating to the performance of the company. The LMC may consult on various aspects of the firms' activities as has co-determination powers over training, welfare facilities and grievance handling. Although these initiatives have not been generally welcomed by employers, they are now obliged to follow them and the reform of labour-management practices may begin to permeate the foreign operations of companies such as HMC (Lee, 2002).

Conclusions

The establishment of Hyundai Motor Company's manufacturing plant in Chennai marked an important attempt by HMC to relaunch its globalisation strategy and demonstrate that it could successfully manufacture Hyundai vehicles outside of Korea. Although there are currently joint ventures in Turkey, Malaysia and China, the Chennai plant is the only wholly owned HMC operation. The employment relations practices in the Chennai plant are more like those which HMC has implemented in Korea and represents a retreat from some of the more 'progressive' approaches which HMC attempted in Canada, such as a flatter organisational structure and participation by workers in decision making. The Indian plant is a more labour intensive and lower cost operation which relies on having a large, cooperative workforce. So far, HMI has

avoided unionisation and has not had to bargain over wages and conditions. Yet given the widespread nature of unionisation in the Indian auto industry and political pressures which many mount on HMI to both recognise and bargain with unions, the non-union status of the plant may not be sustainable.

It remains to be seen what lessons HMC has learned from its failure to develop effective employment relations policies and practices in Canada and whether it is likely to adopt the more progressive elements of current Korean labour-management reforms. Pressure may be placed on HMI by government sources in India to provide greater opportunities for consultation and participation by employees at the enterprise level. The experience of Labour Management Councils in Korea may encourage HMI to see this form of consultation as a positive approach to employment relations. Similarly, the trend towards enterprise-based unions in India may provide HMI with an opportunity to develop a more cooperative style of unionism in order to avoid the traditional adversarial style of industry-wide unions in India. Whatever strategy HMC adopts, it will need to develop a more comprehensive and systematic approach to employment relations if it is to realise its ambitions to become a global player in automobile manufacturing which goes beyond low cost, mass production and achieves a higher value-added product which is competitive in the world market.

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Table 1. A Comparison of Employment Relations Practices in the Hyundai Motor Company Plants in Korea and India		
	KOREA	INDIA
Strong differentiation between workers and managers	Yes	Yes
Selection of employees based on performance-related criteria	Yes	No
Training programs emphasize behavioural characteristics such as company loyalty and team spirit	Yes	Yes
Flexible wage system linked to productivity	No	Yes
Successful union avoidance strategy	No	Yes
Worker resistance to authoritarian management system	Yes	No
Involvement of workers in decision making at the workplace level	No	No