Institutional Isomorphism and Decoupling among Korean Firms: Adoption of Performance Compensation System

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This study draws on the idea of isomorphism and decoupling to explain the rapid diffusion of performance compensation system among Korean firms in its compromised rather than pure form. Empirical analysis of data on Korean firms confirms that three mechanisms of isomorphism—coercive, normative, and mimetic—operate in the process toward isomorphism among Korean firms in their adoption of performance compensation system, but only its compromised form between seniority and performance pay. While labor union as a potential source of resistance promotes decoupling, the role of professionals such as consultants or HRM experts suppresses the possibility of decoupling.

Keywords: pay-for-performance, new institutionalism, isomorphism, decoupling, compensation system

INTRODUCTION

Human resource management (HRM) system of Korean firms has changed profoundly during the last two decades. Change in HRM is part of the dramatic changes that Korean organizations and institutions have experienced. Democratization, globalization, and ICT (information and communication technology) revolution are some of the driving forces behind the changes. Korea is not the only society that has gone through transformations but the speed and impact of changes are exceptional.

In this study, we focus on one aspect, compensation system, of changes in HRM of Korean

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firms. Especially we examine the background, antecedents, and process of Korean firms’ adoption of performance compensation system. Until mid-1990s, promotion and compensation of Korean firms have been primarily based on seniority. The wave of globalization since 1990s made Korean firms more attentive to global business practices, but it was the financial crisis in 1997 that accelerated and forced changes in various aspects, including HRM as well as corporate finance and accounting, of business management.

After the financial crisis, layoffs were legalized and psychological contract between employers and employees based on the expectation of ‘life-long employment’ disappeared. Under the slogan of flexibility, Korean firms increased their use of temporary and non-regular workforce. Such drastic changes in HRM faced severe resistance from employees. Performance-based compensation was introduced to Korean firms in the midst of such turbulent process of changes in HRM.

Performance compensation system is broadly defined as “the system with guiding principles heavily emphasizing performance, comprising individual HRM practices such as appraisal, reward, development, and promotion and that selects and implements specific politics in order to realized the guiding principles” (Bae and Park 2005). Based on the principle of meritocracy, it asserts that employees with better performance and more contributions should receive more rewards (Kim 2003) and links the baseline salary and incentives to individual capacity and performance (Park 2000). Since the early 2000’s, performance compensation system was widely adopted by Korean firms. According to a survey, the proportion of firms with pay-for-performance system increased from 1.6% in 1996 to 37.5% in 2003, and 55.2% in 2005 (Ministry of Labor 2005).

Although performance compensation system is widely adopted among Korean firms, its underlying assumptions conflict with the cultural beliefs and attitudes of the employees. Individualism and competition emphasized in the new compensation system contradict collectivism and cooperation in Korean traditional culture. Therefore there are skeptical opinions about the cultural fit and effectiveness of the new system in Korean firms. Chang (2005) argues that excessive external motivation might deteriorate the level of efforts that employees put into work, and Bae and Park (2005) point out that employees could become short-term oriented under the new system. It was also pointed out that new system were adopted not in whole but in part, and that a compromise between traditional and new compensation system emerged (Bae and Rowley 2001).

In explaining why and how Korean firms adopted performance compensation system, we draw on the idea of isomorphism and decoupling suggested by new institutionalism (Boxenbaum and Jonsson, 2008). In empirical testing of our argument, we use detailed firm-level information from national representative sample collected by Korean Labor Institute. We start with theoretical discussions about isomorphism and decoupling, explicate data and research method, present results from the statistical analysis, and finally conclude with
discussions.

THEORETICAL REVIEW

Institutional Isomorphism and its mechanisms

Diverse perspectives in organization theory since 1970s agree in that organizations emphasize keeping good relationship with the external environment as much as improving internal efficiency and performance. New institutionalism puts special emphasis on the role of social legitimacy in keeping good relationship with the environment (Meyer & Rowan 1977). Organizations can gain legitimacy by accepting the socially taken-for-granted cognitive or normative symbolic components and thus complying with the institutional demand from the environment. As a result, the organizations located within the same organizational field generally show similar structures and practices. The structural similarity among organizations as a consequence of the normative and cognitive compliance is called institutional isomorphism (DiMaggio & Powell 1982).

The concept of isomorphism has been widely applied in explaining the diffusion of certain practices or programs among organizations and produced numerous empirical studies (for a review see Strang and Soule, 1998; Boxenbaum and Jonsson, 2008). Recently diffusion among Korean firms of various organizational structure or practices has been empirically studied, including external board of directors (Lee and Oh 2002; Lee et al. 2007), corporate social responsibility (Kim et al. 2009), and high-performance human resource management (Roh et al. 2003). We apply the idea of isomorphism to the rapid diffusion of performance compensation system among Korean firms.

DiMaggio and Powell (1982) suggest three mechanisms of institutional isomorphism. The first is coercive isomorphism, according to which an organization adopts certain practice of program due to its relationship with other powerful organizations. For example, organizations having a contract with the government are naturally more cooperative to governmental policies. Those organizations having attracted foreign investments might stick to the standards set by foreign capital more often than others. The second mechanism is normative. It is more concerned with the norms in professional society, rather than the norms of the society in general. Each organizational field has its own ritualized structural components and forms, and the professional society takes the role of advising and leading the organizations to adopt those structures and forms. The professional group takes advantage of expert knowledge to influence and endorse organizations. For example, firms receiving external consulting follow institutionalized perspectives and solutions to the problems offered by the professionals. The last mechanism is mimetic. Organizations are likely to imitate practices of others or leading organizations when they feel uncertain about the situation or face high level of competition in
the market. The rapid diffusion of best practices such as TQM (Strang and Macy 2001) among firms may serve as an example of mimetic isomorphism.

We have reasons to believe that these three mechanisms operated in the diffusion of performance compensation during the 2000’s. Financial crisis at the end of 1990’s made the changes in regulatory environment inevitable. Korean government under the heavy influence of IMF not only enforced corporate restructuring and high standard of corporate financial security but also was instrumental in reforming labor market and industrial relations more flexible and favorable to firms. Foreign investors with increasing control over Korean economy emphasized global standards and assumed the role of disciplining Korean firms. We can see that Korean government and foreign investors functioned as key agents in the mechanism of coercive isomorphism.

Hypothesis 1-1: Firms with high level of public or foreign investment would be more likely to adopt performance compensation system.

The period of rapid diffusion of performance compensation system coincides with the period of proliferation of business consulting firms in Korea. When Korean firms faced the need to adapt to global business environment, they turned to consulting firms for knowledge and information. The consultants emphasized flexibility and performance based system as the core components of the recent trend in HRM. In-house experts as well as external consultants played the role of introducing and implementing new practices including performance compensation to Korean firms. Consultants and in-house experts functioned as the key agents in the mechanism of normative isomorphism.

Hypothesis 1-2: Firms receiving external consulting or having in-house expert with affiliation to professional association would be more likely to adopt performance compensation system.

Finally the increased uncertainty and intensified competition Korean firms faced since the financial crisis should have accelerated the adoption of performance compensation system by firms believing that global best practices would make them more competitive. The mechanism of mimetic isomorphism applies to the firms facing severe competition.

Hypothesis 1-3: Firms facing high level of competition in the market would more likely to adopt performance compensation system.

Decoupling and Its Antecedents
While institutional process within organizational field generates isomorphism among
organizations, it also creates organizational tendency toward decoupling. Decoupling is defined as a situation where compliance with external expectations is merely symbolic rather than substantive, leaving the original relations or practices within an organization largely intact and unchanged. Decoupling is an important consequence of institutional process less recognized and studied compared to proliferation of researches on diffusion and isomorphism (Westphal and Zajac 2001). Only recently there has appeared theoretical discussion of decoupling in Korea (Kim 2009) but systematic empirical studies are lacked.

Weick (1976) is the first to direct attention to the decoupling and loose coupling between formal rules and actual practices in organizations, especially educational organizations. Meyer and Rowan (1977) observe that organizations would formally adopt institutionalized rules and norms without actually implementing them. In so doing, organizations would conform to their environment while buffering the technical core of their operation from environmental pressures and uncertainties. Decoupling is often called organizational hypocrisy (Brunsson 1989; Krasner 1999), which signifies organizations’ response to conflicting pressures in their external environments through contradictory actions and statements. According to these early institutionalist accounts, decoupling is endemic to institutionalized organizations. What is largely left unexamined was under what conditions decoupling is more likely to happen, and subsequent studies have tried to answer this question.

According to some scholars, decoupling is more likely when and where organizations face conflicting expectations from environment or environmental pressures toward conformity meet resistance within organizations. Oliver (1991: 155) reinterprets decoupling as one of strategic responses by organizations to contested environmental pressure. She argues that organizational actors are not passive to pressure but that a whole range of responses (from acquiescence to manipulation) is available, among which decoupling stands in the middle range. In a similar vein, institutionalists have shown that decoupling is common when organizations face regulatory demands, such as Civil Rights programs (Edelman and Petterson 1999; Sutton and Dobbin 1996; Kalev et al. 2006).

Resistance to regulatory demand from institutional environment would be particularly strong when the imposed or imitated rules or practices are foreign to adopting organizations. Empirical studies on the cross-national transfer of foreign models or programs (Djelic 1998; Guler et al. 2002; Bourguignon et al. 2006; Bosswell 2008) confirm that imported models or programs are disputed and decoupled in the process of adoption. Adoption of performance compensation system by Korean firms is no exception. Not only the individualistic assumption behind the new compensation system but its emphasis on competition was alien to employees of Korean firms, who had long been accustomed to organizational culture promoting fraternal community, harmony, and cooperation (Bae and Rowley 2001: 414-415, 418). Content as well as the context of new compensation system intensified discontent among employees. In the aftermath of financial crisis, Korean firms adopted new performance compensation system
along with flexible employment adjustment, which intended to reduce organizational uncertainty but ended up transferring uncertainty to employees.

From the above discussion, we can derive the following hypotheses about the antecedents of decoupling.

Hypothesis 2-1: When adoption of new practice is based on coercive (regulative) mechanism, decoupling is more likely.

Hypothesis 2-2: When there is potential source of resistance against new practice, decoupling is more likely.

Resistance to or avoidance of regulation is not the only source of decoupling. Ambiguity in the meanings of or inaccuracy of information and knowledge about the institutionalized practice or programs can induce decoupling. As Edelman (1992) clearly shows with the case of Civil Rights Act, ambiguity in the meaning of rules and norms leaves organizations substantial latitude to construct the meaning of compliance. Organizations can take advantage of such latitude to redefine or modify the core aspects of institutionalized programs to suit their interests. Cross-national diffusion and adoption of new practices or programs entail ambiguity and inaccuracy as well. When new ideas or norms travel across national boundaries, it involves substantial amount of institutional work such as encoding, decoding, translating, editing, and enacting ideas and practices (Czarniawska and Sevón 1996). In this process, ideas or practices can be misunderstood, distorted, or misrepresented. Decoupling can arise from such errors in symbolic institutional work. The role of professionals is to reduce such errors and help organizations to successfully adopt and implement institutionalized practices or programs. The following hypothesis comes from the above discussion:

Hypothesis 2-3: When adoption of new practice is based on normative mechanism, decoupling is less likely.

DATA AND METHOD

Data
The data analyzed here come from the 2006 workplace panel survey conducted by the Korea Labor Institute. The workplace panel survey aims to systematically investigate employment structure, labor demand, HR management and development, and labor-management relations. A representative sample of Korean workplaces is biannually surveyed in depth to grasp the reality of fast changing HR management and labor-management relations. This survey is
similar to the WERS (the Workplace Employee Relations Survey) of Great Britain and the WES (the Workplace and Employee Survey) of Canada.

Sampling unit is establishment and sampling follows stratified sampling method, randomly drawing representative numbers of workplaces proportionally from the private and public sectors. Target population comprises all establishments with more than 30 employees covered by the National Survey of Establishments conducted by National Statistical Office. 3,915 and 400 establishments are sampled from private sector and public sectors respectively, stratified by industry, size, and region.

The actual survey was administered with a computerized individual interview to the HR managers, labor managers, and other employee representatives. Survey conducted between July and November 2006 secured responses from 1,715 establishments. Including the 190 cases from special survey on public sector, the total sample size is 1,905. After dropping cases with missing information, we include 1,849 cases in our final statistical analysis. Panel survey usually repeatedly follows the same sample through follow-up survey. However, the 2006 workplace panel survey is the first investigation, which makes it impossible to apply the panel analysis method.

**Variables and Methods**

In this study, we use the items related to the pay and promotion for the measurement of the adoption of performance compensation system, the dependent variable. The observable variables related to performance compensation system are (1) practice of promotion by selection, (2) absence of seniority-based (yon-kong) compensation, (3) compensation based on annual salary contract (yon-bong), and (4) pay-for-performance. These variables are counted as the components of performance compensation system.

We cannot assume that Korean firms adopt these various components in a uniform pattern. Therefore, rather than deductively constructing types of compensation system from logical reasoning, we take inductive approach of uncovering patterns of association from the data. Logically there are 16 (= 2^4) possible combinations of the four items. However, not all of the possible combinations will actually materialize and only a few dominant patterns will emerge from the data. In order to uncover the dominant patterns underlying the adoption of four items, we conduct latent class analysis. Latent class analysis is a statistical method for detecting the latent cluster inherent in the categorical observable variables, comparable to factor analysis and LISREL (linear structural equation with latent variables) models applied to continuous variables (Lee 2005).

As the clusters uncovered by latent class analysis effectively summarize the complex pattern of adopting various components of compensation system, the characteristics and distribution of each cluster is of interest and deserve attention in itself. Especially we can see if the empirically uncovered patterns show internal consistency or, as decoupling argument
would predict, disjoint components coexist in spite of contradiction. However the main focus of this study is on the environmental and organizational factors in firms employing various compensation systems.

Using the patterns of various compensation system uncovered by latent class analysis as a dependent variable, we conduct a regression analysis of the probability of these various compensation systems. Binomial or multinomial logit model is employed in this next step, depending on whether more than two patterns of compensation system emerge from latent class analysis. In multinomial logit model, one category of the dependent variable is designated as the reference category. The probability of membership in various categories is compared to the probability of membership in the reference category (Menard 2002). The coefficient from the model represents the changing odds of belonging to one of the categories of dependent variable versus the reference category as a result of one unit change in the independent variable.

In this study, dependent variable is the various patterns of compensation system uncovered by the latent class analysis and independent variables are the variables representing the theoretical arguments. Independent variables related to the coercive mechanism include: a dichotomous variables indicating whether the firm’s investors included any government or public institution; a continuous variable measuring the proportion of foreign investment. Following hypothesis 1-1 and 2-1, we predict that while they enhance the probability of adopting the performance compensation system, they will not enhance the probability of adopting its pure form. To test the normative mechanism, two dichotomous variables are included: whether the firm recently received external consulting and whether the firm’s HR personnel is member of HR association. Based on hypothesis 1-2 and 2-3, we expect these variables to promote the adoption of performance compensation system and further that they would promote the adoption of its pure form rather than a compromised form. As mimetic mechanism is related to competition and uncertainty, we include the perceived level of competition in firm’s major market measured by 5-point scale. Based on hypothesis 1-3, we predict that high level of competition would promote adoption of performance compensation system, but we have no specific prediction about whether the pure form or the compromised form would be adopted. In order to test the effect of resistance on adoption and decoupling of performance compensation system, we include a dichotomous variable indicating whether the firm has labor union or not. As labor union in Korea has functioned effectively as a source of employees’ resistance to firm’s policy, we expect firms with labor union would be less likely to adopt performance compensation system, and if they do, they are more likely to decouple and therefore adopt its compromised form rather than a pure form (hypothesis 2-2). Table 1 summarizes the hypothesized effects of independent variables.

In addition to the independent variables, we include various variables to control for the effects of firm background characteristics. Control variables include logged value of total asset, number of employees, age of firm, whether the firms is a member of business group, whether
the firm’s use of non-regular employees has increased measured in 5-point scale, and organizational legal forms categorized as sole proprietorship, business corporation, educational or medical corporation, and other non-profit corporation.

We expect younger firms have less inertia and are more likely to adopt new practices such as performance compensation. Based on previous studies reporting that larger firms are more likely to adopt performance compensation system (Park and Ahn 1999), we expect sized measured in capital asset and number of employees to have positive effects on the adoption of performance compensation system. In Korean economy, business groups not only occupy lion’s share of entire economy but also are main target of public opinion and partner of government in economic policy. Therefore we expect that members of business group conform to the trend and adopt performance compensation but at the same time try to evade criticism or

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Variables</th>
<th>Effect on adoption</th>
<th>Effect on decoupling</th>
</tr>
</thead>
<tbody>
<tr>
<td>Isomorphism</td>
<td>Coercive</td>
<td>Investment from public sector</td>
<td>+</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Ratio of foreign capital</td>
<td>+</td>
</tr>
<tr>
<td>Normative</td>
<td>External consulting</td>
<td>+</td>
<td>–</td>
</tr>
<tr>
<td></td>
<td>Member of HRM association</td>
<td>+</td>
<td>–</td>
</tr>
<tr>
<td>Mimetic</td>
<td>Perceived level of competition</td>
<td>+</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Resistance</td>
<td>Existence of labor union</td>
<td>–</td>
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</tbody>
</table>

<table>
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<tr>
<th>variables</th>
<th>%</th>
<th>Variables/categories</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Promotion by selection</td>
<td>55.3</td>
<td>Organizational</td>
<td>3.7</td>
</tr>
<tr>
<td>Seniority scale</td>
<td>65.7</td>
<td>Sole proprietorship</td>
<td>74.1</td>
</tr>
<tr>
<td>Annual salary negotiation</td>
<td>64.7</td>
<td>Business corporation</td>
<td>8.8</td>
</tr>
<tr>
<td>Performance pay</td>
<td>52.4</td>
<td>Education/medical corporation</td>
<td>13.4</td>
</tr>
<tr>
<td>External consulting</td>
<td>31.4</td>
<td>Other non-profit corporation</td>
<td>15.7</td>
</tr>
<tr>
<td>Membership of HRM association</td>
<td>48.6</td>
<td>Public investment</td>
<td>5.4</td>
</tr>
<tr>
<td>Existence of labor union</td>
<td>41.2</td>
<td>Business group member</td>
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<thead>
<tr>
<th>Variables</th>
<th>mean</th>
<th>Standard deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organizational age</td>
<td>23</td>
<td>15.7</td>
</tr>
<tr>
<td>Number of employees</td>
<td>749</td>
<td>3,185.5</td>
</tr>
<tr>
<td>Total asset</td>
<td>548,879</td>
<td>3,315,648</td>
</tr>
<tr>
<td>Ratio of foreign capital</td>
<td>6.8</td>
<td>19.9</td>
</tr>
<tr>
<td>Level of competition (5-point scale)</td>
<td>2.2</td>
<td>1.1</td>
</tr>
<tr>
<td>Increased use of non-regular workers</td>
<td>2.6</td>
<td>1.1</td>
</tr>
</tbody>
</table>
resistance through decoupling, which is consistent with the findings from Japanese large companies (Ahmadjian and Robinson 2001). Since performance compensation is often regarded as a part of the whole package of new HRM, its adoption would go along with employment adjustment and flexible use of workforce. Therefore we expect that firms that increase utilization of non-regular workforce would be more likely to adopt performance compensation.

Descriptive statistics of variables included are presented in Table 2.

RESULTS

Figure 1 illustrates the result from latent class analysis on the four items of compensation system: promotion by selection, absence of seniority-based compensation, annual salary negotiation, and pay-for-performance. Four latent classes or patterns representing distinct patterns of compensation system are derived from the analysis. Goodness-of-fit statistic based on log-likelihood is -4,967.7 and statistically significant (p < 0.05).

The first and most prevalent (41.7%) class or cluster has high loadings on all the four items. Promotion by selection, annual salary negotiation, and pay-for-performance are important parts of the performance compensation, but keeping seniority based compensation is not. The most prevalent compensation system among Korean firms is the compromise between performance-
based and seniority-based compensation systems.

The second class or cluster scores high on promotion by selection, annual salary negotiation, and pay-for-performance but scored low on seniority-based salary scale. This is the pure form of performance-based compensation system without seniority-based salary scale. 19.4 percent of the sample firms employ this pure form of performance compensation system.

The third class or cluster shows directly opposite pattern to the second one. It scores low on promotion by selection, annual salary negotiation, and pay-for-performance and scores high on seniority-based salary scale. 22.5 percent of the firms belong to this pure seniority-based compensation system. The fourth class is low on all the four components, which indicates the lack of a systematic compensation system. 16.5 percent of the firms are classified into this cluster.

What is noteworthy here is the fact that compromise between performance and seniority prevail as compensation principle among Korean firms. Such compromised form of compensation system indicates a case of loose-coupling (Weick 1976; Meyer and Rowan 1977). To examine the organizational and environmental factors in adopting and decoupling performance-based compensation system, we apply multinomial logit model to the clusters uncovered by latent class analysis. Among the four clusters, the third cluster and fourth cluster clearly differ but agree in that they don’t adopt any component of performance compensation. Thus we combine these clusters into the lack of performance compensation. We reclassify the compensation system into three groups—pure performance compensation (cluster 2), compromised performance compensation (cluster 1), and no performance compensation (cluster 3 and 4)—and conduct multinomial logit analysis.

Table 3 illustrates the results from estimating the multinomial logit model. For the sake of easier and more intuitive comparison, we set up the model so that reference categories successively change. Therefore we analyze the variables’ effects on the probability of employing compromised performance compensation vis-à-vis no performance compensation, and then the effects on the probability of employing pure form vis-à-vis compromised form of performance compensation. Such change in set-up does not affect the estimation since changes in reference category generates statistically equivalent models. Model’s overall goodness of fit measured by -2 Log-likelihood statistic is 3,540.4 and likelihood ratio test comparing null model and preferred model generates Chi-square value of 334.2, which is statistically significant (df = 30, p < 0.001). Cox and Snell’s $R^2$, which signifies the proportion of variance explained by the model, is 0.265.

The first column shows the results of comparing the compromised compensation system and no performance compensation system. Among the firm background variables, organizational age and logged total asset affect the probability of adopting performance compensation system in compromised form. Younger and larger firms are more likely to have mixture of seniority-based and performance-based compensation systems. Members of
business group are more likely to have compromised form compared to none of performance compensation system. Among the organizational forms, educational and medical corporations are less likely to adopt compromised form compared to none of performance compensation system. Neither the number of employees nor increasing use of non-regular workers reveals significant effects.

Two variables related to coercive mechanism of isomorphism, ratio of foreign capital and investment from the public sector, have both positive and significant effects on the probability of having compromised form compared to none of performance compensation system. Two variables related to normative mechanism of isomorphism, experience of external consulting and hiring a member of HR association, also significantly increase the probability of having compromised form compared to none of performance compensation system. Perceived level of competition in the market, related to mimetic mechanism of isomorphism, have positive effect on the probability of having compromised form vis-à-vis lacking performance compensation system. Overall all the variables related to three mechanisms of isomorphism tend to promote

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Table 3. Multinomial logit estimation of the pay system type adoption

<table>
<thead>
<tr>
<th></th>
<th>Compromised form (Cluster 1) vs No performance compensation (Cluster 3, 4)</th>
<th>Pure performance compensation (Cluster 2) vs Compromised form (Cluster 1)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Coefficient</td>
<td>S. E.</td>
</tr>
<tr>
<td>Intercept</td>
<td>-3.937</td>
<td>(0.591)</td>
</tr>
<tr>
<td>Organizational Age</td>
<td>-0.019**</td>
<td>(0.004)</td>
</tr>
<tr>
<td>Number of Employees</td>
<td>0.000</td>
<td>(0.000)</td>
</tr>
<tr>
<td>Total Asset (logged)</td>
<td>0.245**</td>
<td>(0.028)</td>
</tr>
<tr>
<td>Increased Use of Non-regular workers</td>
<td>0.066</td>
<td>(0.051)</td>
</tr>
<tr>
<td>Sole Proprietorship¹</td>
<td>-0.125</td>
<td>(0.363)</td>
</tr>
<tr>
<td>Business Corporation¹</td>
<td>0.096</td>
<td>(0.232)</td>
</tr>
<tr>
<td>Educational/Medical Corporation¹</td>
<td>-1.035**</td>
<td>(0.308)</td>
</tr>
<tr>
<td>Business Group</td>
<td>0.883**</td>
<td>(0.300)</td>
</tr>
<tr>
<td>Proportion of Foreign Capital</td>
<td>0.007**</td>
<td>(0.003)</td>
</tr>
<tr>
<td>Public Investment</td>
<td>0.406*</td>
<td>(0.222)</td>
</tr>
<tr>
<td>External Consulting</td>
<td>0.265*</td>
<td>(0.138)</td>
</tr>
<tr>
<td>Member of HRM Association</td>
<td>0.310**</td>
<td>(0.117)</td>
</tr>
<tr>
<td>Level of Competition</td>
<td>0.115**</td>
<td>(0.057)</td>
</tr>
<tr>
<td>Labor Union</td>
<td>-0.851**</td>
<td>(0.140)</td>
</tr>
</tbody>
</table>

Number of Cases: 1,849
-2 Log-Likelihood: 3540.4
Cox & Snell’s R²: 0.265

*p < 0.10  ** p < 0.05
1. The reference category is non-profit corporation other than educational or medical corporations.
chances of having compromised form of compensation system rather than adopting no component of performance compensation system. Existence of labor union as potential source of resistance significantly decreases the probability of having even compromised form of performance compensation system compared to none of it.

The second column shows the results from comparing the pure form and compromised form of compensation system. Among firm background variables, organizational age has negative effect on the probability of having pure form of performance compensation system compared to its compromised form. Being a member of business group decreases the probability of having pure form of performance compensation system vis-à-vis its compromised form. Among organizational forms, educational and medical corporations tend to have higher probability of having pure form of performance compensation system compared to other forms.

Independent variables related to three mechanisms of isomorphism show inconsistent effects. Two variables related to coercive mechanism, ratio of foreign capital and investment from the public sector, show no significant effects. Two variables related to normative mechanism, experience of external consulting and hiring expert who is a member of HR association, positively affect the probability of having pure form of performance compensation system compared to its compromised form. Perceived level of competition in the market, related to mimetic mechanism of isomorphism, significantly increases the probability of having pure form of performance compensation system. Firms with labor union are less likely to have pure form of performance compensation system rather than its compromised form.

To summarize the findings from statistical analysis, we can say that although elements of performance compensation have been rapidly diffused among Korean firms in the 2000’s, the dominant form of compensation system is the compromise between traditional seniority based compensation and new performance compensation. Rapid diffusion and prevalence of compromised form suggest a case of institutional isomorphism and decoupling. The estimation of statistical models testing the hypotheses of isomorphism and decoupling show that while the three mechanisms based on coercion, norm, and imitation, promote adoption of elements of performance compensation system among Korean firms, they differ in what form of performance compensation system they promote. Table 4 summarizes the results from statistical analysis.

Coercive mechanism promotes compromised form but has no effect on the adoption of pure form. While hypothesis 1-1 is supported, hypothesis 2-1 is rejected by our empirical test. Both normative and competitive mechanism increases the adoption rates of compromised and pure form of performance compensation. In other words, they not only promote isomorphism but suppress decoupling. Hypotheses 1-2 and 2-3 about normative mechanism’s effect on isomorphism and decoupling are both supported, and hypothesis 1-3 about mimetic mechanism’s effect on isomorphism is supported. Finally the resistance potential discourages isomorphism and promotes decoupling. Hypothesis 2-2 about the relationship between
CONCLUDING REMARKS

During the last decade, HRM system in Korean firms has experienced dramatic shift from seniority-based system to the performance-based system. This paper draws on theoretical ideas of isomorphism and decoupling from new institutionalism to explain the background and process of the change. Overall the theoretical arguments have received empirical support from the analysis of national representative samples of business firms.

While the concept of isomorphism has gained popularity among organizational scholars, the concept of decoupling has been comparatively less recognized and studied. The situation is more pronounced in Korea. While increasing number of empirical studies on isomorphism appeared during the 2000’s by Korean organizational scholars in sociology, management, and public administration, research interest in decoupling is just taking off (cf. Kim 2009). As most of the Korean literature on new institutionalism reflects the effect of globalization and cross-national transfer, the idea of decoupling can play a crucial role in explaining the institutional processes among Korean organizations. In a sense, decoupling can be related to the idea and concept of compressed modernity (Chang 1999) which became popular among scholars in Korean studies, in that both emphasize selective and partial adoption of western norms and standards.

Not only the antecedents of decoupling but its consequences deserve further studies in the context of Korean society. Given that decoupling or organizational hypocrisy could promote cynicism among the members and observers of organizations, such cynical attitude could breed widespread distrust toward institutions and organizations with high degree of decoupling or hypocrisy. In the literature of early institutionalism, decoupling has been noted as an organizational buffer against conflicting external demands (Meyer and Rowan 1977; Oliver 1991). However, if the degree of decoupling becomes excessive, it could bring about pathological consequences such

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Variables</th>
<th>Effect on adoption</th>
<th>Effect on decoupling</th>
</tr>
</thead>
<tbody>
<tr>
<td>Isomorphism</td>
<td>Coercive investment from public sector</td>
<td>+ (+)</td>
<td>n.s (+)</td>
</tr>
<tr>
<td></td>
<td>Ratio of foreign capital</td>
<td>+ (+)</td>
<td>n.s (+)</td>
</tr>
<tr>
<td>Normative</td>
<td>External consulting</td>
<td>+ (+)</td>
<td>− (−)</td>
</tr>
<tr>
<td></td>
<td>Member of HRM association</td>
<td>+ (+)</td>
<td>− (−)</td>
</tr>
<tr>
<td>Mimetic</td>
<td>Perceived level of competition</td>
<td>+ (+)</td>
<td>− (−)</td>
</tr>
<tr>
<td>Resistance</td>
<td>Existence of labor union</td>
<td>− (−)</td>
<td>+ (+)</td>
</tr>
</tbody>
</table>

* Predicted effects are in the parentheses.
as decline of trustworthiness and legitimacy. In addition, whether the decoupling really helps organizations to cope successfully with external demands and improve performance is yet to be studied empirically.

An objection can be raised against the arguments in this study that the compromised form of performance compensation is transitional phenomena and that in the long run compensation system in Korean firms would be replaced by pure form of performance compensation system. This is an empirical question begging further research with longer time frame. However from the perspective of imitation and innovation (Westney 1987) or “made to fit” (Ansari et al. 2010), modification and decoupling in the process of diffusion and adoption can be more enduring and can be a source of new variation.
REFERENCES


[Submitted October 1, 2009; Accepted June 1, 2010]