

Government Reform and Policy Implications

: An Evaluation Based on the New Public Management Theory

December 2014 | Oh, Youngmin

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I

Introduction

There are the many issues that also highlight this need, such as the aging Korean population that will require spending increases and the excessive regulations that are increasingly hindering further economic growth. The consensus is that enhancing the efficiency of public institutions will, among other benefits, reduce government debts and improve operational standards.

The reform of public institutions and regulations has been a key issue of debate and policymaking over the last two decades in Korea. But much of the recent discourse on reform has transpired under the influence of the New Public Management (NPM) theory, which first emerged in the West in the late 1970s. While almost all the past presidential administrations in Korea have introduced reforms, few studies have been conducted to provide serious evaluations of these measures upon which to base possible improvements. This study is thus an in-depth evaluation of government reforms implemented in Korea, based on an opinion poll and expert analyses, and it draws policy implications based on these analyses.

The study is divided into three parts. Part II summarizes the NPM theory and its chief principles that have guided past government reforms in Korea. It also places Korea's specific reform measures and attendant issues in an international, comparative context. Part III summarizes the results of the opinion poll and expert evaluations on the effectiveness of past reform measures and proposes some alternatives. Part IV discusses the current status of specific reforms that were introduced in Korea on the basis of NPM theory, identifies major problems, and describes possible institutional solutions. The guiding rules

of the analysis used in this study are as follows:

- 1) The NPM-inspired reforms introduced by past administrations in Korea shall be assessed both as a whole and individually (measure by measure).
- 2) A consistent and comprehensive framework of understanding and analysis shall be used to describe and evaluate the backgrounds/contexts in which past government reforms were introduced, the processes in which they were implemented, the outcomes they yielded, the main principles behind them, and their effectiveness, with a view to delineating implications for more successful government reforms in the future.
- 3) The analysis of specific reform measures should be accompanied by descriptions of their current status, evaluations of their effectiveness, and identifications of related problems so as to provide substantial and applicable solutions. The goal is to provide a consistent and comprehensive analysis of all reforms and alternatives rather than delving into each in great depth. The analysis of each reform measure or institution shall include the following:
 - (1) Explanations of the main concepts involved;
 - (2) Descriptions and evaluations of the current status of the measure or institution;
 - (3) Descriptions of current problems and possible solutions.

II

NPM Theory and Government Reform in Korea

1 NPM: Background

NPM theory is centered on the idea that the efficiency of the public sector and government performance can be improved by applying private-sector management techniques. The theory arose in the late 1970s, as the need to eliminate government inefficiencies became more urgent amid a series of oil shocks and an unstoppable increase in public spending. The series of reforms attempted in England under the Thatcher government and dubbed as “Thatcherism” provide a good example of the theory in action. Other Anglophone countries, including the United States, Australia, New Zealand, and Canada soon followed and adopted similar reforms. NPM theory was inspired by the neo-classical school of economics—emphasizing the efficiency-optimizing function of the free market—and a neo-institutionalism rooted in the belief that rational individuals behave in pursuit of maximizing their interests. The neo-classical theory of economics evolved into the doctrine of neoliberalism amid the fiscal crises that swept the world in the late 1970s. Neoliberals believe that the efficiency and effectiveness of the public sector can be maximized when the public sector is managed according to market principles. Other influences on the development of NPM theory include theories of neo-institutional economics, such as the public choice theory, the transaction cost theory, and the principal-agent theory.

2 Main principles and institutions of NPM

NPM theory has its origin in the efforts to overcome and counter chronic government failures resulting from the deficiencies of excessive bureaucracy. Its main principles and institutional/policy prescriptions are listed below.

〈Table II-1〉 Main Principles and Prescriptions of NPM Theory

Traditional bureaucracy	NPM	Prescriptions of NPM
Centralized and controlling	Decentralized and autonomy-maximizing	<ol style="list-style-type: none"> 1. Adopt team systems. 2. Enhance accountability and autonomy of institutions. 3. Decentralize powers of appointment and personnel management.
Rule by law and regulation	Minimal procedure, maximal transparency	<ol style="list-style-type: none"> 1. Deregulation 2. Minimization of red tape 3. e-Government

Source: Oh(2014), p. 33.

Most institutional reforms introduced in Korea under and since the Kim Dae-jung administration have their roots in the principles and prescriptions of NPM theory. Korean policymakers introduced a cutback-oriented government management style as a means to achieving budget efficiency, identifying and streamlining overlapping programs, and keeping below the labor cost ceilings. In order to enhance the outcome and performance of government initiatives, policymakers also implemented performance-oriented budgets and encouraged government employees to be more efficient by offering greater remunerations. The principles of decentralization and autonomy forced policymakers to reflect upon the inefficiencies of Korea's centralized, authoritarian approach to governance, and this led to the adoption of autonomous team systems and the introduction of the Performance-Based Organizations system. Thus, government organizations were given greater leeway in matters of personnel and budgetary control. In terms of privatization, policymakers began to embrace the idea that competition with the private sector was necessary to improve the effectiveness of the monopolized public service. They subsequently began to contract out

government services, while also adopting a competitive system for appointing government employees and executives.

3 Evaluation

Despite these diverse and numerous reform efforts, the majority of Koreans still feel that their government is inefficient. According to an Organization for Economic Cooperation and Development (OECD) report, Korea possesses the smallest bureaucracy with the smallest budget among all OECD member states, and it was ranked at the top and in the eighth place for performance-oriented budget and performance-encouraging incentives, respectively. Nevertheless, the country performs rather poorly with regard to governmental waste, policy transparency, and decision-making transparency, according to surveys conducted by the International Institute for Management Development (IMD) and the World Economic Forum (WEF). In the WEF survey,¹⁾ Korea scored 2.7, 3.3, and 2.9—all out of a seven-point scale—in terms of public spending waste, transparency of government decision-making, and excessive regulation, respectively. The country was ranked 107th, 137th, and 114th in these areas, respectively, near the bottom among the 144 surveyed countries. According to another survey, conducted by the IMD in 2014,²⁾ Korea was 26th out of 60 surveyed countries in terms of government decision-making efficiency. These survey results attest to the failure of government reforms attempted in Korea to date.

Numerous studies have pointed out the many problematic issues plaguing the Korean government's attempts to implement reforms and their less than ideal outcomes. Scholars frequently criticize the inadequacy of analysis preceding the introduction of reform measures, the lack of consideration for institutional compatibilities, the political motivations that are often behind reform measures, and the absence of a comprehensive and systematic planning and implementation

1) World Economic Forum (WEF, 2013), *The Global Competitiveness Report*.

2) International Institute for Management Development (IMD, 2014), *World Competitiveness Online*.

strategy. The Korean government has largely introduced market-oriented reform measures without spending enough time and effort on ensuring reform transparency, accountability, and autonomy. It has failed to foresee how new reform measures might be compatible or incompatible with existing institutions, and it has indiscriminately introduced measures that do not suit the Korean context. Critics also point to the top-down way in which these reforms are implemented, with powerful leaders treating government employees as *targets* and objects of reforms rather than as subjects and leaders in their own right. The inadequacy of government employees' participation in the reform process has subsequently led to significant resistance. Even the best possible reform solutions are unlikely to succeed unless they first garner the consensus of the people subjected to them. The success of reform measures therefore crucially depends upon the extent to which government employees themselves participate in the process. Finally, there is no well-organized system for monitoring and evaluating the outcomes of government reforms in Korea. In fact, the country's biggest problem with government reforms is the absence of a functioning feedback process capable of yielding and circulating honest and accurate assessments. Another important shortfall is the absence of a means by which the outcomes and issues surrounding reforms can be transparently communicated to the public. All of these problems explain why the Korean public remains dissatisfied with past reforms despite their diversity and volume. Because public attention and political support are essential to the success of reforms, the Korean government ought to do more to reach out to the public, explaining and disclosing the process and outcomes of its reforms.

III

Evaluation of the Effectiveness of Government Reforms: Policy Implications

1 Method of evaluation

In order to diagnose, evaluate, and find solutions for the deficiencies inherent in the implementation of Korean government reforms, an opinion poll and expert evaluations were conducted. The poll, contracted by the Korea Institute of Public Finance (KIPF) out to the Korean Association for Public Administration (KAPA), was conducted in 2014 from July to August with the help of Real Meter, a company specializing in opinion polls. Copies of the questionnaire, designed by researchers at KIPF and KAPA, were emailed and mailed to researchers—predominantly scholars and civil servants specializing in public administration, management, and economics. They were asked to identify and evaluate the backgrounds and preconditions, progress, results and shortcomings, main principles, and applications and effectiveness of various government reforms. The expert evaluations involved individuals with expertise both in general and in relation to specific Korean government reforms, who evaluated the backgrounds, progress, and outcomes of reforms according to a predefined rubric.

2 Results

A. Opinion poll

In considering past reforms, the polltakers concluded that on the whole the reforms had failed to ensure the required levels of transparency, accountability, and autonomy—the key preconditions and goals of reform. The polltakers all gave the government low scores in terms of organizational autonomy (3.35), clearly defined responsibilities (3.59), and democratic and transparent decision-making (3.60). Despite two decades of government reforms, many of them have yet to satisfy any of the key principles of NPM theory. The poll results indicate that government reforms in Korea were implemented rather carelessly, without regard to the key principles and ideals they are supposed to realize.

The polltakers recognized that the reforms lacked a comprehensive and systematic implementation framework and were often pursued for political reasons. More specifically, the polltakers thought that the reforms did not suit the situation in Korea (3.27); were not accompanied by a democratic and participatory process (2.96); were implemented in an unsustainable manner (2.69); and lacked a comprehensive and systematic procedure (2.82). They also thought that the reforms were mainly driven by political calculations (5.58), were a way of placating a public angry with a series of political or social controversies (5.19), and that too many of them were implemented at once (4.31). These responses indicate that much of the public sector reform in Korea was enforced in a top-down manner in response to sudden events and crises, was unsuited to the reality of the Korean bureaucracy, and was lacking strategic considerations. It therefore failed to produce long-lasting results.

With respect to the results, the polltakers did acknowledge the role these reforms played in promoting a performance-oriented culture throughout civil service and governance, concluding that the reforms “increased civil servants’ performance orientation” (4.27) and “enhanced outcome-centered management” (4.29). However, the polltakers also point out certain side effects, such as reinforcing the tendency to respond to policy issues with short-sightedness (3.47), failing to boost civil servants’ morale (2.88), increasing the workload of civil

servants (4.91), and inhibiting collaboration across bureaucratic organizations (3.27). The utilization of organizational resources was also given a low score on all criteria (except for transparency at 4.29), including autonomy (3.14), cost minimization (3.38), service quality and policy effectiveness (3.92), fairness (3.94), and trustworthiness (3.26). The polltakers, in general, concluded that the reforms did more harm than good to organizational efficiency.

When asked to rank the key principles of government reform in relative importance, the polltakers picked procedural simplicity, transparency, decentralization, and autonomy as top-priority ideals. These were followed by performance-orientation, cost reduction and cutback-centered management, competition, and privatization. Competition and privatization were given relatively low scores, falling short of the median of 4.0. The polltakers, in other words, believed that reforms leading to long-term institutional and cultural transformations (e.g., prioritizing procedural simplicity, transparency, decentralization, and autonomy) were more important and necessary than reforms producing short-term results (e.g., emphasizing cutbacks and privatization).

〈Table III-1〉 General Assessment of Government Reforms in Korea

	Question	Avg.	Civil servants	Scholars
Preconditions for reform	Is decision-making transparent in your organization?	3.60	4.21	3.24
	Does your organization impose clearly defined roles and responsibilities?	3.59	4.05	3.30
	Does your organization provide managers with sufficient autonomy?	3.35	3.97	2.95
Process of reform	Did the reform suit the Korean situation?	3.27	3.55	3.11
	Did the reform unfold in a democratic, participatory manner?	2.96	3.26	2.77
	Was the reform implemented in a sustainable manner?	2.69	3.03	2.47
	Did the reform unfold according to a comprehensive, systematic framework?	2.82	3.16	2.62
	Were there too many reforms attempted beyond the capacity of your organization?	4.31	4.31	4.31
	Were political calculations the main motive for the reform?	5.58	5.54	5.60
	Were the reforms launched in response to unforeseen events or crises?	5.19	5.21	5.16

〈Table III-1〉 Continue

Question		Avg.	Civil servants	Scholars
Results of reform	Did performance-orientation grow?	4.27	4.14	4.38
	Did the reform lead your organization to approach issues from long-term perspectives?	3.47	3.72	3.29
	Did the reform boost morale in your organization?	2.88	2.90	2.86
	Did the reform increase the workload on you and your coworkers?	4.91	5.31	4.68
	Did the reform improve the effectiveness of collaboration?	3.27	3.71	3.00
	Did the reform enhance organizational autonomy?	3.14	3.30	3.05
	Did the reform reinforce performance-oriented management?	4.29	4.45	4.22
	Did the reform cut back the cost?	3.38	3.47	3.33
	Did the reform improve service quality and policy effectiveness?	3.92	4.03	3.86
	Did the reform increase the transparency of government activities?	4.29	4.61	4.10
	Did the reform improve the fairness of government activities?	3.94	4.38	3.67
	Did the reform increase people's trust in the government?	3.26	3.70	3.00
Priorities of reform	Procedural simplicity and transparency	5.71	5.56	5.82
	Decentralization and autonomy	5.34	5.15	5.47
	Outcome- and performance-orientation	4.80	4.49	4.98
	Cost minimization and cutback-centered management	4.45	4.21	4.59
	Competition and privatization	3.95	3.68	4.08

The reforms that were relatively high-scoring in terms of applicability were the labor cost ceilings (4.17), deregulation (3.90), and performance-based incentives and annual salaries (3.62). Relatively high scoring for effectiveness were the Responsible/Autonomous Operating Organizations system (3.62), the labor cost ceilings (3.56), and deregulation (3.46). Privatization, layoffs, and employment flexibility programs, on the other hand, fared poorly with regard to both applicability and effectiveness. These results overlap, to some extent, with the results for the priorities and principles of reform. Reform measures promoting decentralization, accountability, procedural simplicity, and transparency were generally regarded as more applicable and effective than others, particularly privatization and competition reforms.

<Table III-2> **Assessment of Specific Reform Measures**

Applicability	Avg.	S.D.	Effectiveness	Avg.	S.D.
Labor cost ceilings	4.17	1.438	Responsible/Autonomous Operating Organizations	3.62	1.383
Deregulation	3.90	1.313	Labor cost ceilings	3.56	1.372
Performance-based incentives and annual salaries	3.90	1.443	Deregulation	3.46	1.343
Contracting out/market-friendliness tests	3.84	1.293	Team system	3.45	1.415
Team system	3.80	1.482	Performance-oriented budgets	3.38	1.315
Responsible/Autonomous Operating Organizations	3.73	1.363	Performance-based incentives and annual salaries	3.37	1.372
Budget cuts	3.69	1.288	Budget cuts	3.36	1.320
Competitive appointment system	3.67	1.401	Contracting out/market-friendliness tests	3.31	1.326
Performance-oriented budgets	3.66	1.368	Competitive appointment system	3.30	1.451
Privatization	3.64	1.397	Employment flexibility	3.09	1.317
Layoffs	3.60	1.440	Privatization	3.09	1.344
Employment flexibility	3.33	1.360	Layoffs	3.08	1.289

B. Expert evaluations

Following the opinion poll, a series of evaluations of Korean government reforms were tendered by scholars with expertise on the subject and related issues. As <Table III-3> shows, experts, like their polltaker counterparts, were generally critical of the reforms. The reforms scored, on average, 1.8 points out of 5 throughout the backgrounds, processes, and results—a performance that lies somewhere between “poor” and “very poor.” The experts’ harsh assessment of the reform experience in Korea finds its reflection in Korea’s poor performance on similar assessments and rankings by international organizations worldwide, and it confirms the generally negative evaluations that polltakers gave on the earlier opinion poll.

More specifically, the reforms received the lowest score (1.4) with respect to their results, while the processes in applying the reforms received, relatively speaking, the highest score (2.3). The backgrounds or contexts in which the

reforms were introduced received 1.8. Experts were comparatively more generous in their assessment of substantial and sustainable reform management aspects, giving them the average scores of 3.0 and 2.5, respectively. The reform results received the lowest-ranging scores of 1.3 and 1.0, indicating that there is pressing need to ensure thoroughgoing and objective reviews and evaluations of the actual effects of reforms.

〈Table III-3〉 Experts' Evaluations of Reforms in General

Phase	Criterion	Question	External research staff 1	External research staff 2	Avg.
Introduction	Preconditions	Were the given conditions, settings, and cultural backgrounds considered thoroughly before the reform was implemented?	1.0	2.0	1.5
	Compatibility	Was the compatibility or contradiction with existing institutions/programs thoroughly considered?	2.0	2.0	2.0
	Appropriateness	Was the reform introduced out of organizational needs rather than due to external motives?	1.0	2.0	1.5
	Systematicity	Was the reform implemented systematically, according to a comprehensive strategy?	2.0	2.0	2.0
	Average			1.5	2.0
Process	Substantial use	Was the reform substantially applied and used in the organization?	3.0	3.0	3.0
	Efforts for improvement	Were sufficient efforts made to improve the reformed institution/program?	2.0	2.0	2.0
	Sustainability	Was the reformed system managed and run in a sustainable manner?	2.0	3.0	2.5
	Participation	Were insiders given sufficient chances of participation in the reform process?	1.0	2.0	1.5
	Average			2.0	2.5
Result	Achievement	Did the reform accomplish what it set out to achieve?	2.0	2.0	2.0
	Evaluation	Was an appropriate evaluation of the results of the reform made?	1.0	1.0	1.0
	Feedback	Was there adequate feedback on the evaluation?	1.0	1.0	1.0
	Disclosure	Was the outcome of the reform sufficiently communicated and disclosed to the public?	2.0	1.0	1.5
	Average			1.5	1.3
Overall average			1.7	1.9	1.8

Scale: 5 points for "Well"; 4 for "Somewhat"; 3 for "Mediocre"; 2 for "Poorly"; 1 for "Very poorly."

3 Policy implications

A. Changing the ways in which reforms are introduced

Achieving successful government reforms in Korea requires fundamental changes in the approaches to their introduction, implementation, and results. First and foremost, the Korean government needs to introduce reforms according to a systematic strategy that takes into account the characteristics and culture of bureaucracy in Korea, not according to political calculations external to the bureaucratic apparatus. The opinion poll and the expert evaluations reveal that most past reforms attempted in Korea were driven by political needs and consequently lacked a strategic and systematic approach. In contrast to this, the government should conduct an accurate assessment of the needs and conditions supporting reforms and introduce reforms according to a far-reaching strategy geared toward enhancing bureaucratic effectiveness. To ensure key preconditions are met—accountability, transparency, and autonomy—the government first needs to diagnose the current status and issues of bureaucracy, and then it can identify areas or functions in which reforms could be successfully applied. Moreover, the government should introduce reforms selectively, in light of the characteristics and cultures of individual organizations involved. It should also to consider any possible contradictions with existing cultures or institutions to minimize side effects.

Strategies applied abroad offer good examples for the Korean government to examine—such as the National Performance Review (NPR)³⁾ of the United States and Next Step,⁴⁾ a strategy for the analysis of administrative functions used in the United Kingdom—in the process of developing its own framework

3) Established as a reform-steering body under the Clinton administration, the NPR has launched diverse administrative reforms, with the elimination of bureaucratic formalism, client-centeredness, delegation of authorities, and a return to the basics as key principles.

4) The UK government has performed an efficiency diagnosis with the goal of identifying and deciding government functions amenable to the application of market principles. It was on the basis of this functional analysis that the UK government identified functions of government to be eliminated, privatized, and delegated to select and accountable government organizations.

and strategy for introducing reforms. The government needs to move away from launching reforms in a haphazard, instantaneous manner for the purposes of propaganda or public placation. Rather, it should aim for long-term and sustainable reforms with the establishment of a presidential and independent reform-advancing organization, akin to the Bureau of Government Innovation, which can conduct thoroughgoing diagnoses of governmental functions or areas in need of reform. Reforms should be introduced with proper strategies and instruments and only after the affirmation of accurate diagnoses. Once the aims and instruments are decided upon, the government should organize reform task forces at the level of individual ministries or local governments to ensure that the reforms are implemented sustainably and systematically in collaboration with the presidential organization for advancing reforms. This will prevent a repeat of past failures through imposing market-friendly reform strategies and instruments on government organizations without regard for organizational roles, characteristics, and differences.

Indeed, the Korean government must include civil servants within the decision-making process and carrying out of reforms. Past experiences have proven time and again that reforms cannot succeed without the participation and inclusion of civil servants. Both the opinion poll and expert evaluations reveal that past reforms were almost unilaterally enforced in a top-down manner, without garnering much participation and consensus from those subject to them. This was the key factor in their lack of sustainability, along with the excessive formality with which the reforms unfolded, and culminated in negligible change. Bureaucrats are the primary subjects and objects of government reforms. Trying to impose reforms from above without their consent is a recipe for failure.

Thus, the Korean government needs to establish proper channels for civil servants' participation in the reform process, such as the reform-advancing organization and reform task forces suggested earlier. Civil servants should be not only members of the reform-advancing organization, but also able to participate directly in reform decision-making. The proposed reform-advancing organization, for instance, may include civil servant representatives of each pay/seniority level in its decision-making process. Opinion polls, public hearings, and public debates should always be held with and for civil servants before designing any reforms to gather their views and opinions. The sustainability

of reforms can be further enhanced by encouraging active participation and support from civil servants with rewards incentives.

The expert evaluations also revealed the pressing need for ongoing assessments of and feedback on the results of reforms. The Korean government has traditionally focused solely on implementing reforms without proper regard for evaluating, revising, and managing their outcomes. Each new presidential administration—almost as a rule—starts its career by launching ambitious reform drives, not on the basis of cool-headed analysis but to satisfy its own political expediencies. Any opinion polls or expert evaluations on these reforms are usually conducted in name only, leading to a lack of veracity and improvement that naturally lower civil servants' morale, increases their workload, encourages excessive competition at the expense of productive collaboration, and promotes short-term perspectives on policy implementation.

Sustainable reform evaluations and institutional improvements can only come from establishing, effective channels for both internal and external evaluations. Although the Responsible Organizations Program includes a procedure for internal reform evaluation, there has yet to emerge a system for the evaluation of reforms in general. To ensure systemic and sustained evaluations of reform results, the Korean government needs to adopt systemic measures, such as the sunset provision, which can be applied after reforms have been implemented for an extended period to properly evaluate how well they have fared in meeting their goals. The reform-advancing organization could oversee these evaluations, organizing in-depth assessments of specific reform measures and requiring individual ministries, departments, and local governments to conduct internal evaluations for sustained improvements. Aside from instituting such a system of internal evaluation, the Korean government could organize independent bodies of citizens and private-sector representatives to ensure ongoing external evaluations of the progress and outcomes of given reforms. In addition, the results of such evaluations should be disclosed fully to the public in an ongoing effort to promote the public's understanding and support for the reforms.

B. Changing the aims and contents of government reforms

The results of the opinion poll and expert surveys reveal a number of significant policy implications regarding the future aims and goals of government reforms in Korea. According to NPM theory, government reforms ought to aim at enhancing the performance and productivity of the government by introducing the pro-competition and pro-efficiency management techniques of the private sector into the public sector. Government reforms inspired by this theory have thus focused on short-term and instrumental aspects of reform, such as increasing competition, privatization, performance-orientation, cost reduction and cutback-centered management. However, these kinds of reforms are deficient in the qualities necessary for the long-term enhancement of government capabilities and professionalism, such as enhancing the trustworthiness and transparency of reforms or the autonomy and accountability of bureaucratic organizations. Paradoxically, market-based government reforms can succeed only when certain non-market criteria or requirements—such as transparency, autonomy, and professionalism—are met. For instance, in order to encourage competition by contracting out government services to the private sector, the mutual trust between the parties concerned and the transparency of the contracting process must be ensured as key preconditions. In order to improve the productivity of public services, individual civil servants and their organizations should be given appropriate levels of autonomy and authority so that they can enhance their professionalism and competency and thereby bear full accountability for the outcomes of their actions. In other words, we need to outgrow the present means-to-end approach to government reforms and focus instead on the fundamental aims of reforms.

As a means to successful and effective reforms, the polltakers favored transparency- and autonomy-increasing team systems, the Responsible/Accountable Organizations Program, and deregulation of competition- and efficiency-encouraging measures, such as privatization, subcontracting, layoffs, and employment flexibility options. The polltakers, in other words, were generally negative toward market-inspired reform measures. As for the effects or results of government reforms, the polltakers do recognize that reforms helped to improve civil servants'

performance-orientation and outcome-oriented management. However, they also point out negative side effects, such as the increased tendency toward shortsightedness on policy issues, the declining morale of civil servants, and the increased workload for civil servants. We may interpret this ambivalence as reflecting the lack of transparency in the performance evaluation process and the dearth of opportunities for enhancing civil servants' capability, authority, and autonomy in conducting reforms, while on the other hand outcome-oriented management has been emphasized throughout reform experiences.

The expert evaluations similarly point out that government reforms in Korea have more closely followed the Anglo-American model, emphasizing competition and efficiency, than the European model, which strives to improve government performance through the delegation and decentralization of authorities and increased transparency and fairness in decision-making. The result, as the experts also point out, is that the reforms have failed to truly satisfy the needs and conditions in Korea. The experts' reform scores indicate that it is more important for the Korean government to transform institutions and cultures through long-term measures promoting transparency, trustworthiness, decentralization, professionalism, and capability-enhancement, than to achieve short-term gains through market-oriented competition, cutbacks and privatization. For without the fundamental transformations of existing institutions and culture, we cannot guarantee the success of market-oriented reform measures.

1) Enhancing transparency

In order to enhance the transparency and trustworthiness of government reforms, drafters of legislative bills should be required to submit and second their bills with their real names. At the same time, information on administrative services and actions ought to be communicated to the public and civic participation increased. Although the current e-government and Administrative Disclosure System provide formal access for the public to policy information, they still largely serve as little more than instruments of policy propaganda, instead of providing detailed and substantial information on actual policy-making. To enhance the transparency of the policymaking process, it is important to make public the persons responsible for drafting policies and be able to reach

them for communication if necessary. In addition, a system is needed that provides comprehensive administrative information on the entire range of government and budgetary activities. At present, the organizational charts of most government ministries and departments list only the names and contact information of civil servants. These charts should be expanded to provide descriptions of the specific jobs and processes the civil servants handle. Performance plans and reports should also disclose the actual names of civil servants involved in given projects as part of the effort to enhance accountability. Moreover, these documents should be digitized and uploaded onto public websites so that interested citizens can learn about and follow the progress of various policy programs in real time. In addition to the Administrative Information Disclosure System, the government should also enhance the channels of civic participation in the making, execution, and evaluation of policies. In the United States, for example, there are citizens' committees and groups that provide active advice and monitoring on policy programs. Civic participation is essential for greater openness and transparency of the rather closed bureaucratic culture in Korea. Ministries and departments may need to organize civic advisory committees and other forms of instituted participation. Participatory budget-making and civic performance evaluation systems are also good examples of the ways in which citizens can participate in important public decision-making.

2) Enhancing autonomy

Bureaucratic organizations need to acquire autonomy and accountability of both operations and individual members at multiple levels, including human resources, organizational makeup and management, and budget execution. The current labor cost ceiling program and the top-down budget preparations process severely restrict the autonomy of bureaucratic organizations in Korea. However, the autonomy of productive ministries and departments could be increased by giving them certain incentives for strong performance, such as the authority to hire more personnel and create new units over and beyond the limits imposed by the labor cost ceiling. Individuals' autonomy and accountability could also be enhanced by allowing them to participate in the decision-making process. More specifically, a new work culture should be established, encouraging and

enabling civil servants at all levels to enjoy making their own decisions and taking responsibility for the them, with only minimal interference or supervision from their superiors. In order to promote such a culture, the Korean government could begin by providing incentives—rewarding, for instance, managers who respect the autonomy and accountability of their subordinates.

3) Enhancing professionalism

The current system of position rotations based simply on rank needs to be replaced, if possible, so that civil servants can hold positions for longer periods, thus enhancing their experience, professionalism, and expertise. Moreover, the expertise requirement—currently confined to science and technology and law—should be expanded onto other areas of the civil service by limiting position rotations in jobs involving safety control, performance evaluation, budget and finance, labor relations and personnel and by incentivizing civil servants with seniority and expertise in their respective fields of specialization with greater rewards. Professionalism and expertise can be further enhanced by encouraging exchange with other ministries, departments, and the private sector. Recognizing the expertise requirement in various areas of the civil service will help promote beneficial exchange practices among civil servants of different departments with the same specialties. Interdepartmental exchange is also key to minimizing the risks of corruption associated with long-term work in one position and to overcoming compartmentalization. In addition, interdepartmental cooperation is crucial for identifying and preventing the overlapping of programs and budgetary waste. However, as today’s closed bureaucratic culture in Korea tends to disadvantage civil servants who have transferred to or from other departments, greater incentives should be provided for departmental transfers, such as preference in promotion and pay raises. Increasing exchange between civil servants and the private sector has its benefits too, but it does carry the risk of collusion and corruption, as the series of recent scandals over the “revolving door” indicates. A mutual prohibition system should thus be introduced, preventing retired civil servants from landing jobs in the private-sector organizations they worked with while in civil service. The current civil servant training curriculum, centered on lectures and unilateral instructions, should also

be revised, providing more case studies that enhance civil servants' creative problem-solving skills. Civil servants who complete the required courses could be issued licenses certifying their qualifications or expertise and could even be given pay raises. Because enhancing expertise and professionalism requires sustained attention from managers and an organization as a whole, training records and experiences should be included and given greater weight in performance evaluations of civil servants conducted by the managers and organization.

The outcome of the NPM-inspired approach to government reforms can vary dramatically, depending on how the government introduces and implements related reforms and on what objectives or aims it emphasizes. Notwithstanding criticisms, NPM-inspired government reforms have proven to be effective in many cases in improving the efficiency of government activities, increasing citizens' choice of public services, and enhancing client-centered orientation in the civil service. Nevertheless, the NPM-inspired reforms attempted in Korea so far have been plagued with grave shortcomings, as indicated by the opinion poll and the expert evaluations. Table III-4 summarizes improvements the Korean government needs to make to increase the effectiveness of reforms.

〈Table III-4〉 **Suggestions for Effective Government Reforms**

Type/phase		Suggestion
Manners of reform	Introduction	<ul style="list-style-type: none"> – Establish a presidential (centralized) reform-advancing organization as well as reform task forces at the level of individual ministries and departments. – Analyze government functions in order to develop a systemic reform strategy instead of introducing reforms based on political calculations.
	Implementation	<ul style="list-style-type: none"> – Ensure civil servants' participation, via their rank-by-rank representatives, in reform organizations and decision-making. – Increase civil servants' participation and input in reforms through incentives (opinion polls, public hearings, public debates, rewards, etc.).
	Evaluation	<ul style="list-style-type: none"> – Enhance feedback on reform measures based on intermediate evaluations (sunset system). – Introduce a private-sector reform evaluation committee and communicate the progress and outcomes of reforms to the public.

〈Table III-4〉 Continue

Type/phase		Suggestion
Aims of reform	Transparency	<ul style="list-style-type: none"> – Have reforms launched and implemented under the real names of initiators, sharing details of policy measures and their outcomes, – Institutionalize civic participation (e.g., civic committees, participatory budget systems, civic performance evaluations).
	Autonomy	<ul style="list-style-type: none"> – Allow well-performing, productive ministries/departments to expand their organization, hire more people, and/or spend reserved or carried-over funds, – Widen the scope of organizations' decision-making, and evaluate and reward managers that respect subordinates' autonomy and properly delegate authority.
	Professionalism	<ul style="list-style-type: none"> – Replace the principle of position rotation with a greater expertise requirement across various areas or functions of the civil service. Incentivize civil servants to acquire greater expertise and conduct more exchanges with other ministries/departments and the private sector. – Enhance and improve civil servant training programs (e.g., providing more case studies, issuing licenses and pay raises, increasing the weight of training records in performance evaluations).

IV

Cost Reduction and Cutback-Centered Management

NPM theory emphasizes small government as the best and only solution for eliminating inefficiencies in the public sector. The key routes to achieving this lie in cost reduction and cutback-centered management. In this section, we provide an analysis of the current status and issues of the cutback measures the Korean government has introduced, such as the elimination of similar and overlapping programs, incentives for budget saving, and a budget waste reporting system. Based on the analysis, possible improvements are suggested. This section also provides an analysis of the labor cost ceiling program, which grants bureaucratic organizations autonomy on a par with the cost saving they achieve in terms of wages, organizational management, and budgets for civil servants.

1 Budget saving system

A. Budget waste

Park et al.(2013) provides a typology of budget waste in government. In the budgetary preparation phase, budget waste mostly occurs due to political decisions and the inadequacy or the absence of the feasibility studies. In the budgetary execution phase, budget waste arises due to plan revisions and changes, chronic carry-forwards of budget items not executed on time, and the excessive nature of spending. The National Assembly, the Board of Audit and Inspection (BAI), and the press in Korea continue to monitor and report on budget waste on an ongoing basis.

<Table IV-1> Types of Budget Inefficiencies

Type	Causes
Institutional/ structural (Type I)	I-1. Ambiguity or irrationality inherent to the current budget system. I-2. Absence of institutional means of promoting budget efficiency.
Budget preparations (Type II)	II-1. Absence or inadequacy of preliminary research (demand surveys, etc.): – Inaccurate demand forecasts and cost estimations; – Inadequate feasibility studies; – Choice of projects low on priority; – Refusal to abide by advice of rational feasibility studies; – Setting aside budgets for projects that are unlikely to be executed in the given fiscal year due to inadequate preparations, including the absence of interdepartmental collaboration and planning problems. II-2. Overlapping of investment and other spending projects. II-3. Budget forecasts not reflective of carry-forwards (see III-4). II-4. Errors in tax revenue and budget estimations: – Underestimation of tax revenue-based budgets needed for special accounts; – Inaccurate project cost estimations. II-5. Setting aside budgets in the absence of legislations. II-6. Budget preparations in violation of existing laws/rules: – Simultaneous, not sequential, budget preparations, etc.
Budget execution (Type III)	III-1. Budget execution for unplanned purposes: – Execution of budgets for purposes other than those planned (but not in direct violation of law); – Excessive appropriation or spending; – Increase in budget during execution due to a change of plan. III-2. Inefficient execution: – Waste due to administrative and other delays; – Execution of budgets that fail to satisfy given goals; – Inadequacy of executed budgets (mostly concerning the central government); – Excessive spending in areas where savings are possible (e.g., vacation training workshops). III-3. Execution of budgets in violation of existing laws, rules, regulations, etc. III-4. Chronic carry-forwards (particularly concerning local governments): – Chronic carry-forwards of grants and subsidies for local government programs, social welfare programs, etc.
Organizational (Type IV)	IV. Inefficiencies in the way in which individual organizations operate and are managed: – Organizational inefficiencies with causes listed in Types I, II, III, and V.
Other (Type V)	V. Other cases.

Source: Park et al.(2013), pp. 13-14.

Lee(2011) analyzes the actual examples and practices of budget waste at various administrative organizations, as reported in the press from 2003 to 2011, using articles and records made available online through a newspaper article search engine. Lee identifies 128 cases of budget waste, not counting the overlapping ones, during the given time period. Construction turned out to be the area in which budget inefficiencies were most prominent, accounting for 45 cases or 35.2 percent of the total. Next in order were the misappropriation of public funds in the form of credit card use and business trip expenses (13 cases, 10.2 percent), training and workshops that are arranged as favors for certain civil servants (13 cases, 10.2 percent), and budget waste due to tourism and festivals (nine cases, 7 percent). Budget waste due to the inadequacy of preliminary research was most common in the construction sector. Inefficient execution of the budget was also a major problem, as indicated by the misuse of credit cards and the granting of training or workshops as favors.

〈Table IV-2〉 Budget Waste Reported in the Press, 2003-2011

	Type	Frequency	Percentage
By organization	Central government organizations	40	31.3
	Local government organizations	60	46.9
	Organizations of public service	22	17.2
	Education offices	6	4.7
	Total	128	100
By area	Construction	45	35.2
	Labor and employment	5	3.9
	Tourism, festivals, and events	9	7.0
	Training and workshops	13	10.2
	Environment (sustainable growth)	4	3.1
	Contracts	9	7.0
	Subsidies, grants, and funds	7	5.5
	R&D support	6	4.7
	Public funds (credit cards, business trip expenses, etc.)	15	11.7
	Other (souvenirs, blog operations, etc.)	15	11.7
Total	128	100	

Source: Lee(2011), pp. 6-7.

B. Main budget saving programs

As the National Assembly, the BAI, and press reports indicate, a number of major improvements and changes need to be made to ensure the efficient use of budgets. Budget waste was most prominent in the budgetary execution phase, caused by overlapping investment projects, inefficiency of the execution process, and execution of budgets for purposes other than those planned. Fiscal authorities have thus introduced a program for identifying and eliminating overlapping projects, the Budget Waste Reporting Center, and incentives to encourage a more efficient use of budgets.

Overlapping and duplicated projects or programs are the most common causes of budget waste, and NPM theory emphasizes the elimination of such programs to minimize spending and labor demand. The Government Accountability Office (GAO) of the United States, for instance, provides definitions for the “duplication” and “overlapping” of wasteful programs,⁵⁾ advising government organizations to streamline and eliminate these programs by converging or integrating them. Some appraise these overlapping programs not as redundancies and causes of budget waste, but as necessary measures for ensuring the stability and continuity of administrative services in case of extraordinary events.⁶⁾ But most overlapping programs merely reflect a lack of effective communication or an excessive state of competition among government departments. Governments rarely use the programs as a strategic means to ensuring the stability and flexibility of government services.

The Prime Minister’s Office (PMO), the Ministry of Strategy and Finance (MSF), the National Assembly, and the BAI in Korea have striven to rein in and control the redundancy of government programs and services through diverse means. The Office of National Affairs Cooperation in the PMO, for instance, has organized the National Policy Coordination Council, inviting members from all the ministries and departments for discussion and coordination of policy

5) Overlapping programs share certain areas of interest or scopes in common. Duplicated programs are near-perfect copies of other existing programs(Kim and Oh, 2013, p. 17).

6) Landau(1996).

matters through a larger, coherent framework. The PMO has also instituted pan-departmental policy committees to facilitate interdepartmental coordination.⁷⁾

The MSF seeks to control the overlapping of programs by requiring ministries and departments to perform autonomous and in-depth assessments of their fiscal programs in both the budget preparations phase and after budget execution. The MSF guidelines on budget and fund preparations advise each ministry or department to produce and keep budget requests detailing plans for eliminating or streamlining redundant programs, for coordinating related programs, and for restructuring annual expenditure. The MSF then conducts a comprehensive preview of the budget requests submitted by other ministries and departments. The MSF also requires ministries and departments to evaluate and make improvements on possibly redundant projects using the criteria for in-depth evaluation it has provided.

Incentives for budget efficiency are paid to civil servants and lay citizens who have made significant contributions to the cause of budget savings and revenue increases. Although the maximum financial incentive payable to each individual is set at KRW 30 million, it is possible for an individual to receive extra payments up to 30 percent of the spending saved or revenue increased as a result an indispensable and prominent contribution. <Table IV-6> lists ceilings on the budget efficiency incentives payable to civil servants. According to the MSF,⁸⁾ a total of KRW 35 billion was paid in 1,922 cases between 1998 and 2013 to individuals who have helped save on spending by KRW 2.35 trillion and increase revenue by KRW 13.5835 trillion. The details of the spending saved and the revenue increased are published annually in a compendium of budget-saving cases, copies of which are distributed throughout the government.

The budget waste report system, along with the Budget Waste Report Centers at various departments and local governments, forms part of the budget waste control system devised and managed by the Ministry of Planning and Budget (MPB). There are approximately 300 such centers today in the Korean

7) As of June 2012, there were 19 such committees, including those on healthcare, social services, and industries. See Kim and Oh(2012).

8) MSF website on budget waste (www.epeople.go.kr).

government, including 40 at ministries and departments of the central government, 244 at local government organizations, and 13 at public corporations. The MSF also launched a telephone hotline for reporting budget waste in 2006 and receives reports and complaints via the Internet as well. The MSF's own Budget Waste Report Center was launched in 2005 and as of the end of 2012 had handled a total of 3,190 reported cases, including 208 in 2010, 164 in 2011, and 212 in 2012.⁹⁾

C. Issues and possible solutions

The survey of budget-wasting practices and cases in the Korean government revealed a number of common patterns. First, in the budget preparation phase, budget waste arises due to the inadequacies of feasibility studies and the neglect of overlapping and redundant projects. In the budget execution phase, budget waste is mainly associated with the execution of budgets for purposes other than originally intended and with the inefficiencies of carry-forwards. The Korean government has thus instituted a number of programs to prevent these wasteful practices, such as the redundancy check test, budget performance incentives, and the budget waste report system.

The redundancy check test, however, lacks a centralized organization or system that ensures thoroughgoing checks and monitoring. It is nearly impossible to identify and coordinate overlapping and duplicated programs that are hidden from public view using this test. In order to minimize these deficiencies, it is therefore crucial to develop a system for sorting, identifying, and controlling program redundancy. Such a system should first include a standing body overseeing and directing redundancy checks at all government organizations, and penalties should also feature to disadvantage organizations that have failed to rein in program redundancy. Using such a system, the government could then identify and consolidate the overlapping spending and taxation items, intra- and interdepartmental duplications, and the overlapping of the channels of

9) Official blog of the MSF (<http://bluemarbles.tistory.com/2139>).

delivering services to beneficiaries. Finally, the system should produce a manual to instruct government officials on the keeping of records related to overlapping programs.

The budget performance incentives and the budget waste report system remain ineffective due to the meager incentives offered, the absence of a centralized authority to investigate reported budget waste, and the lack of professionalism throughout Korean bureaucracy in general. The Korean government should therefore raise the ceiling on performance incentives, currently at KRW 39 million per person or case, and it should also grant the Budget Waste Report Centers the authority to demand and access relevant records at various government departments and organizations, so that they can conduct more effective investigations. The centers' personnel should also be supplemented with people who possess expertise on budget waste and related matters.

2 Total labor cost ceiling

The total labor cost ceiling program was introduced to encourage each ministry or department to minimize its labor costs, while also enhancing its autonomy over matters of deciding the personnel budget, remunerations, staff size, and organization, with the aim of boosting its organization-wide performance and accountability. The legal grounds for the program are indeed numerous. Most importantly, they include the Presidential Decree No. 29 on the Organization and the Personnel of Administrative Organizations. Other enforcement decrees and presidential orders behind the terms of this program, including the rules on civil servant remunerations and allowances, fringe benefits, and the creation of Performance-Based Organizations. The total labor cost ceiling program was introduced as part of the Government Innovation Committee's Major Reform Road Map in 2003, under the then Participatory Government.

A. Main attributes

The total labor cost ceiling program involves a primary or larger department or ministry deciding on the total budget that a sub-level organization can use on its personnel. The sub-level organization, in turn, can decide how to spend that budget on the operation, remuneration, and organization of its personnel, insofar as it does not go beyond the labor cost ceiling. The primary ministry or department then monitors and reviews the sub-level organization's performance under its labor cost ceiling, and subsequently, it decides the next year's budget for that organization. The main cost-deciding ministries in the Korean government today are MOSPA and MSF. More specifically, MSF provides guidelines and rules on the budget amounts to be allocated, while MOSPA's Performance and Compensation Planning Division and Organization Planning Division decide the remuneration ceiling and the organization/personnel ceiling, respectively.

A sub-level organization subjected to the labor cost ceiling may decide to allocate part of its budget to wages and operations or the entire amount to its labor needs. However in principle, the organization is not allowed to go beyond the total labor cost ceiling by allocating the given labor budget and/or reserve funds on projects or programs not included in the scope of the labor cost ceiling. Also, the organization will not be granted additional budgets for the additional number of employees it hires, promotes, or assigns to expanded operations, according to its own judgment, that were not originally included in the scope of the labor cost ceiling.

As for the ceiling on the remuneration and management of personnel, the following process applies. The Minister of Security and Public Administration first decides and oversees the basic items a sub-level organization includes under the labor cost. The sub-level organization is then free to decide what optional items to include in that cost. While the organization retains autonomy over the distribution and spending of the budget for customized fringe benefits, it must conform to the Minister of Strategy and Finance concerning where the rest of the remuneration budget goes. These sub-level organizations are allowed to spend the financial resources they secure (with deliberate cost-saving efforts) on various labor cost items, including the creation or adjustment of allowances, the creation

or additional payment of performance incentives, customized fringe benefits, or incentives for hiring more employees. However, they are not allowed to create and offer new “common allowances” to be paid to all employees that belong to them. They are also not authorized to reduce the given budgets on performance incentives (bonuses and pensions) and customized fringe benefits. (They are authorized to increase these budgets, however.) The wages and benefits for contract-based workers dispatched to a given organization are the responsibility of the businesses/institutions that dispatch such workers. Before creating, merging, canceling, or readjusting optional wage/ allowance/ incentive/ benefit amounts, before paying employees additional performance incentives or customized fringe benefits with financial resources secured by deliberate cost-saving efforts, or before paying additional allowances within the limits set by the total labor cost ceiling, the sub-level organization must first submit its decision for review by the Remuneration Readjustment and Deliberation Committee.

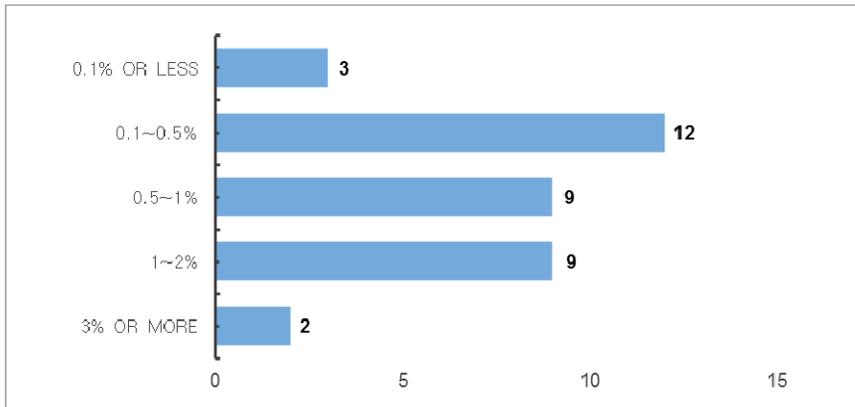
Finally, the total labor cost ceiling program applies the following terms and conditions with regard to the organization of personnel. MOSPA still retains control over the total number of employees and the maximum number of government employees at Level 4 or higher that each Korean government organization can employ. Each sub-level organization is then allowed to increase staff numbers by up to 3 percent of the MOSPA-decided maximum number, pursuant to the Enforcement Rules on Civil Service Organization. However, these organizations do not possess the same discretion over increasing the number of senior executives (at Level 4 or higher). Should they require additional personnel, they can make hiring decisions on a contract basis. As for changing the levels or positions of their employees, the organizations are not allowed to increase the number of their high-ranking employees. They may, however, promote lower-level employees to mid-level positions at or below Level 6, and they may also transfer people from technical jobs to general office jobs. In the past, such organizations were required first to seek the approval of MOSPA before creating any new unit or team. Today, however, the Rules on Civil Service Organization allow them to create team-level units,¹⁰ headed by a leader who is a government employee at either Level 4 or 5. A sunset clause of three years automatically applies to newly hired employees, newly created teams, and newly

promoted employees to improve the effectiveness of organization-wide performance management. These organizations are also required to define performance targets and indicators and to review the performances of their personnel and organizations every year in relation to those targets and indicators.

B. Current status of the total labor cost ceiling system

[Figure IV-1] Labor Costs Saved by the Korean Government Organizations

(Unit: number of organizations)



Source: Cho(2009).

The total labor cost ceiling system has been criticized for failing to satisfy the original purpose for which it was intended, i.e., enhancing the efficiency and autonomy of government organizations in saving and managing their labor costs. According to Cho(2009), the system, as applied to the 35 ministries and departments of the central government, helped to save the total labor cost

10) According to *The Total Labor Cost Ceiling Manual* (2013), an organization must meet the following three conditions before creating a new team or unit: (1) a team or unit must be needed, in addition to an existing unit, given the amount and/or nature of the task it has to handle; (2) a team or unit must be given clearly defined and unique tasks; and (3) there must be enough work requiring a new team or unit of at least five people.

throughout the government by KRW 17.2 billion, but this is a mere 0.7 percent of the total budget of KRW 2.4107 trillion given under the system. As [Figure IV-1] shows, only two of these central government organizations (i.e., the MSF and the Korean Intellectual Property Office [KIPO]) managed to save their labor costs by 3 percent or greater, while the rest only managed to save their costs by less than 1 percent.

C. Issues and possible solutions

Despite its stated purpose, the total labor cost ceiling system has neither significantly improved organizational autonomy nor substantially helped to save labor costs.

The basic item of salaries was not included in the system. The system therefore applies to only 1 percent or so of the total budget that each government may appropriate autonomously. For the system to become more effective, the scope of items on which an organization can spend should be widened according to each organization's discretion. The absence of effective control over total labor cost ceiling practices also limits organizations' accountability. Government organizations are required to perform internal evaluations only on organizational expansion and additional hiring but not on their budget- and wage-saving efforts. It is therefore crucial to ensure that independent and third-party evaluations be made to ascertain how systematically and comprehensively each government organization implements its labor cost ceiling.

The total labor cost ceiling program does not even help the Korean government realize its goal of cutback-centered management. The total labor and wage related budget a given ministry or department receives is determined not on the basis of its performance, but on the basis of its size or the amount of its personnel. In order for the total labor cost ceiling program to help cut labor costs, the total labor budget for each government organization should be based on its budgetary performance and the quality of its budget-saving efforts.

V

Emphasis on Performance and Outcome

Performance orientation is a major principle of NPM theory that has proven to be relatively successful in practice. The emphasis on performance has actually improved the likelihood of individuals and programs meeting their given goals and targets. This section surveys the current status of performance-oriented budgets and incentives paid to government employees, and then it recommends systemic changes.

1 Performance-oriented budgets

A. Definition and main features

Performance-oriented budgets entail the need to keep and use records of the performances and outcomes of budget-backed programs for contributing toward the continued improvement of those programs and future budget preparations. The main objectives of this budget system include enhancing the accountability of government spending, improving the efficiency of budget allocations, and improving the efficiency and effectiveness of individual programs. While performance-oriented budget programs are meant to accomplish all these three goals, it is difficult in reality to design and implement a supporting system capable of accomplishing all the three goals at once. Rather, the design and operating mechanism of a given budget system differs depending on which of the three goals it prioritizes.

For analysis, we can break down a performance-oriented budget system into two main aspects: the platform that is required to generate data on the performance of the budget and the surrounding institutional conditions and mechanisms. A performance-oriented budget system requires three types of information; namely, the indicators used to measure the performance of each given fiscal program, the cost of each given fiscal program, and the budget tool that converts the given budget into a hierarchical structure so that its items correspond to the given policy goals or targets.¹¹⁾ These three components form the platform upon which the given budget system runs. Our analysis, however, also requires an understanding of the institutions and conditions surrounding the budget system. We need to understand how to institutionalize and systematize the process in which these diverse components are tracked, monitored, and evaluated. We also need to know how to improve stakeholders' capabilities and incentives.

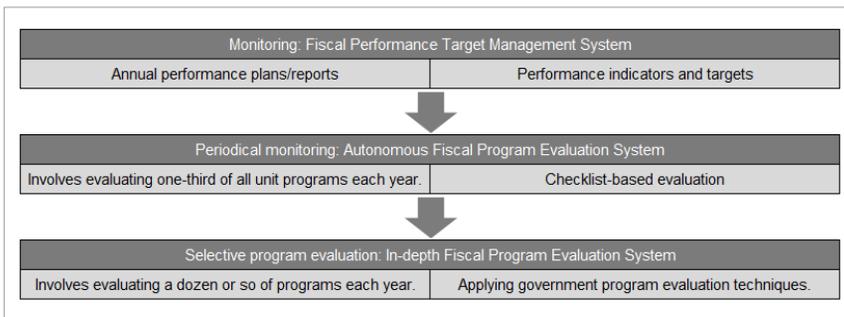
The performance-oriented budget system in Korea began on a trial basis in the late 1990s and early 2000s. The trial program, however, automatically ended without a systematic predecessor when a new presidential administration came to power. In 2003, however, the newly elected presidential administration resurrected the system as part of its drive to comprehensively reform Korea's fiscal system. Under a comprehensive fiscal reform plan, the Ministry of Planning and Budget (MPB) ambitiously introduced a wide range of new systems and programs, including the mid-term fiscal administration plans, the top-down autonomous budget preparations system, the performance-oriented budget system, and the digital budget accounting system. The performance-oriented budget system in Korea today is centered on three main pillars, i.e., the management by objectives (MBO) program, the autonomous fiscal program evaluation system, and the in-depth fiscal program evaluation system. The MBO system incorporates performance indicators into the budget of each given program to achieve year-round monitoring of the program's performance. The autonomous fiscal program evaluation system requires departments and organizations to review their

11) Hyung-soo Park · Deokhyeon Ryu · Nowook Park · Ehung Gi Baek · Seung Hyun Hong, *Improving the Fiscal System and the Fiscal Administration System* (KIPF, 2012).

plans, executions, and performances according to given checklists every three years. The in-depth fiscal program evaluation system involves evaluating controversial programs, using the latest evaluation techniques, with the goal of finding solutions to problems and where improvements can be made. This performance-oriented budget system was introduced, along with the top-down autonomous budget preparations system, so individual departments and organizations could exercise greater flexibility in planning and implementing their programs, while also requiring *ex-post* evaluations that would ensure organizational accountability and feedback for future budgets.

The following figure illustrates and sums up the performance-oriented budget system.

〈Table V-1〉 Performance-Oriented Budget System in Korea: Framework

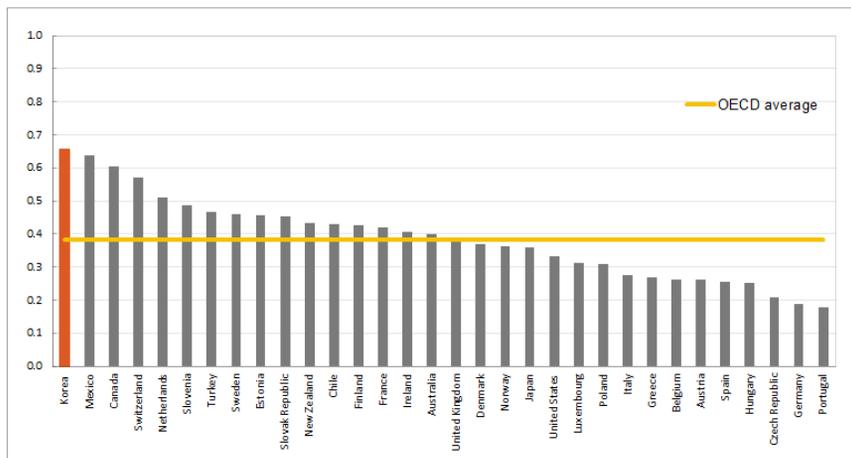


B. Evaluating the performance-oriented budget system

The performance-oriented budget system is effective because it both generates information necessary for making better budget preparations and the feedback necessary for improving existing programs. More importantly, the system has transformed budget-planning and managing culture throughout the Korean government. The Korean *Budget Preparations Manual* requires that any programs performing inadequately on the autonomous fiscal program evaluations have their budgets cut by at least 10 percent. In fact, poorly performing programs have their budgets cut in most of the cases. An analysis by Park (2012), involving

program departments, budget amounts, and program functions or areas as control variables, reveals that in its early days the performance-oriented budget system showed correlations between budget cuts and program performance. However, fiscal conditions at large and the will of fiscal authorities have tended to interfere with such correlations. Nonetheless, Korea is distinct worldwide in explicitly upholding the principle that performance evaluations be reflected in subsequent budget preparations. The introduction of the system has indeed reinforced efforts government-wide to manage and monitor performances, while also fostering an outcome-oriented mindset in government employees. Performance management has become an essential function of the contracted-out and subsidized programs. This Korean system has garnered favorable assessments worldwide, particularly for its comprehensiveness and practical applicability. Notably, Korea came first on the OECD survey of member states' performance-oriented budget systems in 2011.

[Figure V-1] International Evaluation of Korea's Performance-Oriented Budget System



Source: 2011/2012 OECD Survey on Performance Budgeting Practice.

C. Issues and possible solutions

Notwithstanding these favorable assessments, the Korean budget system still has a number of issues and shortcomings that must be overcome. For instance, complaints have arisen over data collection with respect to the budget tool structure and the way in which performance is measured and measures are used to identify program costs. Although the Korean government formally brought together the program structure and the performance target system, it did so at the cost of flexibility. Therefore, to mitigate the rigidity of the budget system, it is important to let budget structures change naturally over time and evolve with changing performance targets. In measuring performance, in-depth performance evaluations struggle with the dearth of relevant information because performances are measured annually. It is thus crucial to encourage departments and organizations to be proactive and set longer-term (three-year) performance targets to keep track of their progress over longer time spans. Finally, the absence of information on how overhead costs are distributed throughout government departments has prevented the budget system from generating comprehensive data on program costs, so this needs to change as well.

Moreover, to sustain the performance-oriented budget system, surrounding institutional conditions must be improved. At present, government ministries and departments lack the capability to manage their own performances, thus leaving the MSF as the central body of performance management. One reason for this centralization is the absence of sufficient incentives for individual departments to take responsibility for their own performance management. It is therefore important to disclose performance information to politicians and the public to foster public interest in the matter. External pressure from these sources will be needed until departments themselves become more autonomous, manage their sub-program unit performances better, and gathering and generating meaningful performance information. The MSF will then be able to focus on managing the performance of multi-department projects. The MSF, however, will also need to appoint a high-level performance management officer, as its American counterpart does, and assemble a council of vice-ministers to organize periodical meetings on performance management.

2 Performance pay system

A. Main features

The pay system for government employees in Korea favors seniority and experience over individual performance or ability. This seniority-based pay system determines how much each individual earns according to the length of his or her service rather than his or her merits and achievements. The system is designed to entice individuals' to stay at organizations and ensure stability, but the absence of meritocratic rewards is not as effective in promoting creativity and achievements through the fostering of competition. However, the increasing role of the government as a problem-solver and an efficient management organization has also increased the demand for reform of the government employee pay system. It is more important for the government today to provide efficient public services and effective solutions to national problems than to satisfy the administrative demands of traditional bureaucracy.

The Asian Financial Crisis of the late 1990s prompted the Korean government to introduce "special reward allowances" in 1995 as part of the administrative reform agenda. The new program involved giving bonuses to the top-10 percent of high performers, amounting to 50 to 100 percent of their basic monthly wages, once every year. This system has since evolved to feature two main components, i.e., performance-based annual wages and performance incentives (bonuses). Performance-based annual wages are open to government employees in managerial positions, at Levels 1 through 4. On December 31 every year, the next year's wages for these high-level government employees are decided according to their performance evaluations. The process proceeds as follows. First, eligible government employees are evaluated and assigned to different levels according to the terms of their performance contracts. Next, the results of policy and organization evaluations are added to the results of individual performance evaluations, and the employees' performances are measured against one another and ranked. Finally, the Performance Incentive Committee decides on the number of individuals to be included in each pay level and the extra salary each rank's members should be paid. The additional salary amounts for

eligible employees are then added to the basic wages they are to receive the following year.

〈Table V-2〉 Performance-Based Annual Wage System (in KRW)

Level	Basic amount	Level S	Level A	Level B	Level C
Group A	80,518,000	12,078,000	8,052,000	4,831,000	0
Group B	67,100,000	10,065,000	6,710,000	4,026,000	0

Source: Government Employee Pay System by Zone Briefing, p. 7(MOSPA, January 2014).

Performance incentives are paid to government employees in both general administrative positions and special services at Level 4 or below. However, incentives paid to government employees in foreign affairs start at Level 6 or below and those paid to government employees in research or educational capacity start at Level 3 or below. Government employees with technical jobs or employed on a contract basis are also eligible for these incentives regardless of their levels. Different performance incentive amounts may be paid to individual employees, individual departments, or first to departments and then to individuals within those departments. Individuals who receive S-level scores on their performance evaluations (i.e., top-20 percent) receive 172.5 percent of their basic wages as performance incentives/bonuses. A-level scorers (i.e., 20 to 60 percent) receive 125 percent of their basic wages; B-level scorers (i.e., 60 to 90 percent), 85 percent of their basic wages; and C-level scores (i.e., bottom 10 percent), zero percent. The scores are determined on the basis of the Work Performance Evaluation and the Multidimensional Evaluation required by Article 4 of the Rules on the Performance Evaluation of Government Employees. Ministers, government evaluation results and department evaluations results may be consulted additionally if necessary. The results of the Multidimensional Evaluation can be used for reference purposes only.

〈Table V-3〉 Eligibility for Performance Incentives/Bonuses

Government employee type	Eligibility
General administrative	At Level 4 (except for division chiefs) and below
Foreign relations	At Level 6 and below
Research and instruction	At Level 3 (including Division Chiefs or equivalents) and below
Special service	At Level 4 (except for division chiefs) and below and the judges of the District Maritime Safety Tribunals
Technical and contract-based	All

Source: Son(2008), p. 393.

B. Issues and possible solutions

It is questionable whether Korea's performance pay system has been truly effective in motivating government employees and thereby improving government performance. Unfortunately, the current evaluation system still favors seniority, backgrounds (i.e., whether civil service examinations were taken or not), and other political factors over individual efforts and merits in deciding individuals' rewards. Greater efforts are needed, then, to ensure the fairness of the performance evaluation system. These include more transparent job analyses and evaluations and the diversification of evaluation methods, including self-evaluations, in-depth interviews, and public disclosure of results.

Even if we succeeded in enhancing the fairness of the performance evaluation system, it may not be much more effective unless we can sizably increase the reward amount for high achievers. Performance pay amounts do not differ significantly between high achievers and underachievers. Almost all government employees (90 percent, given higher than C-level scores) receive bonus payments regularly. It is therefore important to widen the performance pay gap between high achievers and underachievers. Performance, however, can be a tricky concept to measure in the public service. We therefore need to balance the weights assigned to departments and individuals. Salaries should be increased for departments that require more teamwork and should be increased for departments that encourage competition and individual merits.

VI

Decentralization and Autonomy

For NPM theory to work, decentralization and autonomy are two of the key principles and preconditions that must be satisfied in primary institutions. Therefore, the Korean government has been trying to decentralize its authority and functions and enhance the autonomy and accountability of its civil servants. The team system and the Performance-Based Organization Program are good examples in point.

1 Team system

A. Background

The private sector first introduced the team system into Korea, when Samsung Trade adopted it in 1985.¹²⁾ Given its more conservative and bureaucratic nature, the public sector was relatively slow in adopting the team system, and only government-invested enterprises and organizations were open to it at first. As NPM theory grew in popularity in the late 1990s, prompting performance-oriented management, decentralization, and autonomy of government organizations, the Korean government finally began to adopt the team system in 2005, starting with the Ministry of Self-Administration (MSA). The U.S. government had

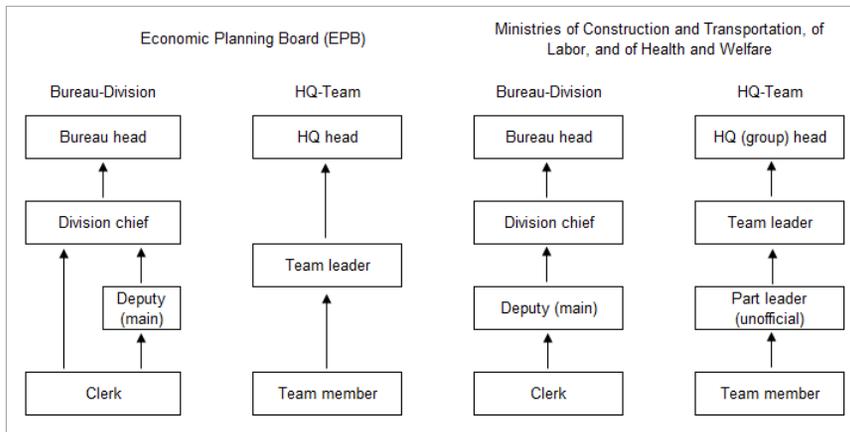
12) Ju(2009).

introduced the team system as a counter to the extreme individualism pervasive in American culture. In contrast, extreme collectivism is pervasive Korea, leading to its own set of problems, such as a reduced sense of accountability, departmental selfishness, and inefficiency in decision-making. The Korean government thus adopted the team system to compensate for these deficiencies.¹³⁾ However, the system has since disappeared from almost all ministries and departments due to the side effects it generated.

B. The team system in Korea today

Soon after the MSA adopted the team system in March 2005, other ministries and departments of the central government followed suit. The team system thus introduced into the Korean government was characterized by the following. First, it accompanied the organizational transition from a rather hierarchical bureau-division system to a headquarters-team system. Next, the system simplified the decision-making process, which formerly required reviews and approvals of all responsible clerks, deputies, division chiefs, bureau heads, and department directors or ministers, now only required approvals from teammates, team leaders, and headquarters leaders. As well as enhancing the efficiency and expediency of decision-making, the Korean government also allowed departments with large numbers of teams, or complex and mixed tasks, to divide their teams into multiple divisions. As [Figure VI-1] shows, some of the ministries and departments appointed unofficial “division leaders” in charge of managing subsets of team members.

13) Kim and Ahn(2007).

[Figure VI-1] Bureau-Division System vs. Headquarters-Team System

Source: Kim and Oh(2005), p. 147.

Under the team system, assistant ministers, office directors or bureau heads became headquarters' heads classed as high-level officials (Levels 1 through 3). Team leaders became senior officials at Levels 2 through 5 and were appointed according to a given set of criteria. All other government employees not appointed as team leaders were now required to work as team members, irrespective of their positions, titles, or seniority. Although the system was open to appointing Level-5 government employees as team leaders, such appointments were rare, given the conservative atmosphere of bureaucracy. In most cases, team leaders were those who formerly served as division chiefs under the bureau-division system. Team members were government employees in Levels 4 through 9 and were assigned on the basis of both team leaders' preferences and their own choices. In the cases where government employees' preferences did not match those of team leaders, final decisions were made through discussions among headquarters heads, team leaders and members of the human resources departments.

The team system also allowed each individual team member to perform multiple tasks and enlarged the scope of their authority.¹⁴⁾ The MSA, for instance, multiplied the number of unit tasks or activities to be handled by individual

teammates from 2,507 to 4,420. In the meantime, the ministry reduced the scope of tasks requiring ministerial approval from 5 percent of all tasks to 2 percent. The scopes of tasks requiring the vice minister's and the headquarters' heads' approvals were also reduced from 10 percent to 3 percent, and from 34 percent to 10 percent, respectively. By contrast, the scopes of tasks requiring team leaders' approval and teammates' decisions were significantly increased from 43 percent to 64 percent and from 8 percent to 21 percent, respectively. Table VI-1 shows the changes in the scope of delegated tasks and authority in other major ministries and departments after the team system was introduced.

<Table VI-1> Scope of Delegation in Major Ministries and Departments under the Team System

Organization	Scope of delegation (decentralization and autonomy)
MSA	Requiring team leaders' approval: 64%, requiring team members' own decisions: 21%.
Min. of Labor	Requiring team leaders' approval: 49% (from 40%), requiring team members' own decisions: 26.5% (from 4.3%).
EPB	Requiring minister's approval: 2.9% (from 8.0%), requiring team leaders' approval: 54% (from 45.4%).
Min. of Construction	Requiring minister or vice-minister's approval: 5.9% (from 14%).
Public Procurement Service	Requiring team leaders' approval: 98.4%.

Source: Kim and Oh(2005), p. 148.

The Task Performance Evaluation System was also reformed, introducing two separate sets of criteria for evaluating team leaders and team members independently. A given team's performance was 100-percent reflected in the evaluation of the team leader but only reflected to 70 percent in the case of individual team members' evaluations. Team leaders were also required to evaluate individual team members qualitatively—in terms of the latter's contributions toward team targets and teamwork and the difficulty of the tasks they performed.

14) Kim and Ahn (2007).

C. Issues and possible solutions

The team system in Korea conflicted directly with the established procedures and culture of conservative bureaucracy. The hierarchy of conservative bureaucracy had its own purposes and functions that were beneficial, and most importantly, it helped to minimize errors by requiring decision-making and approval at many levels. It also motivated and encouraged civil servants by giving them promotion according to seniority and age. By contrast, the team system increased the workload of team and department leaders, while reducing incentives for the promotion of lower-ranking teammates. For the team system to succeed in the world of Korean bureaucracy, the decision-making procedure must be simplified and team members must be given greater autonomy over matters of personnel and budgets to reduce their workloads. Moreover, team members should be required to work in diverse departments by rotation to enhance their professionalism and gain expertise. The number of ranks should also be minimized.

The team rewards and teamwork incentives also require improvements. The uniform policy of maintaining a ratio between team and individual incentives of 70-to-30 has rather served to invite free-riding. Rewards and incentives should therefore be provided on a more flexible basis. Teams working in the areas of diplomatic protocols, security detail, security and national defense—areas in which individual inputs and contributions are difficult to measure and which require greater teamwork—should be allowed to claim up to 70 percent of rewards and incentives. In other more individual-friendly areas of government service, such as research and education, individuals may be allowed to claim more than 30 percent of the given rewards or incentives, in amounts differentiated according to their contributions. While it is important to establish clear principles regarding the distribution of rewards, it is equally important to use these rewards to foster teamwork. It would not do any harm if competition takes place among teams, but cooperation and synergy ought to be the guiding norms within each team. Additional institutional and systemic measures are thus needed to promote team-building and communications.

2 Performance-Based Organizations (PBOs)

A. Definition

Another element of NPM theory that the Korean government adopted to promote decentralization and autonomy in its bureaucracy is the Performance-Based Organizations Program (PBOP). Whereas the team system has served to enhance the autonomy of individual units and departments, the PBOP has enhanced the autonomy and accountability of entire organizations by giving them greater authority over matters of personnel, budgets, and management. The PBOP is intended to improve the quality and effectiveness of administrative services and thereby increase customer satisfaction. The Korean government benchmarked similar practices of the United Kingdom, New Zealand, and Canada in developing the PBOP. Introduced in 2000, the program is currently in place at 15 ministries and departments and 37 organizations.

Article 2.1 of the Act on the Creation and Management of Performance-Based Organizations defines a PBO as “an administrative organization, which assigns administrative and/or financial autonomy to the head of an organization so that he or she can bear accountability for the outcomes and performance of the organization as it handles government services and tasks that can serve the public best when handled according to market principles, such as competition and professionalism, which help reinforce performance management.” PBOs, which are mostly executive agencies, hire their leaders on a competition and contract basis, giving them a sweeping scope of autonomy over matters of personnel, budgets, and management. These leaders’ performances are then measured against pre-defined business and performance targets and goals so that they may either earn additional rewards or have their contracts terminated.

B. PBOs today

In line with the Act on the Creation and Management of Performance-Based Organizations (enacted on January 29, 1999, and effective as of January 1, 2000), the Korean government first designated 10 institutions as pilot PBOs, including the National Medical Center, the National Theater of Korea, and the Driver's License Examination Office. In 2001, 13 more organizations were designated as PBOs, including the National Institute of Animal Science, the Central Supply Base, and the Chungnam Regional Statistics Office. As of 2013, 37 organizations, including those of 17 ministries and departments of the central government, were PBOs. According to Article 2.3 of the same Act, there are six main PBO categories, i.e., research and inspection, education and training, culture, healthcare, maintenance, and other.¹⁵⁾ <Table VI-2> shows the distribution of PBOs in Korea today by category. While much of the PBOP relates to central government, Article 6 of the same Act also allows local governments to adopt and implement their own PBOP according to certain terms and provisions. Local governments therefore can designate or create their own PBOs by enacting bylaws and delegating authorities. No local governments, save for the City of Seoul, have yet created a PBO.¹⁶⁾

<Table VI-2> PBOPs in Korea

Type/category	Organizations	
PBO	Government organizations designated as PBOs by MOSPA according to the Act on the Creation and Management of PBOs.	
Research and inspection	Research and quality control	Korea Seed and Variety Service, National Geographic Information Institute, Korea Aviation Meteorology Agency, Gyeongin Regional Statistics Office, Honam Regional Statistics Office, Dongnam Regional Statistics Office, and Chungcheong Regional Statistics Office.

15) Lee and Kim(2012).

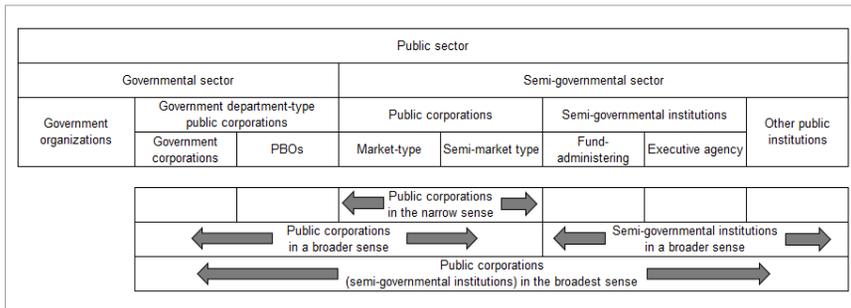
16) There are currently three PBOs of Seoul: the Seoul Museum of History, the Seoul Museum of Art, and the Seoul Traffic Broadcasting System.

〈Table VI-2〉 Continue

Type/category	Organizations	
Education and training	Research	National Forensic Service, National Fisheries Research and Development Institute, National Institute of Biological Resources, Statistical Research Institute, National Research Institute of Cultural Heritage, National Institute of Horticultural and Herbal Sciences, National Institute of Animal Science, and Korea Forest Research Institute.
Culture	National Science Museum, Gwacheon National Science Museum, K-Force Media, National Theater of Korea, National Museum of Modern and Contemporary Art, and KTV.	
Healthcare	Seoul National Hospital, Naju National Hospital, Bugok National Hospital, Chuncheon National Hospital, Gongju National Hospital, Masan National Hospital, Mokpo National Hospital, National Rehabilitation Center, and National Police Hospital.	
Maintenance	Ulsan Regional Maritime Affairs and Ports Office, Daesan Regional Maritime Affairs and Ports Office, National Natural Recreation Forest Office, and Korea Coast Guard Maintenance Office.	
Other	Korea Intellectual Property Office.	

Of the diverse types of organizations making up the public sector, PBOs mostly fall into the category of government department-type public corporations. As [Figure VI-2] shows, the Korean public sector is roughly divided between the governmental sector and the semi-governmental sector. The former consists of central and local government organizations, government corporations (e.g., Korea Post), and PBOs. The semi-governmental sector includes most public corporations, semi-governmental institutions, and other institutions of a public nature. Strictly speaking, the employees of PBOs are government employees, but they operate in way similar to employees of public corporations and semi-governmental institutions. This ambiguity of their status and roles is a subject of ongoing controversy. Some therefore classify PBOs as public corporations in the broad sense.

[Figure VI-2] Location of PBOs on the Public Corporation (Semi-Governmental) Spectrum



Source: Park(2009), p. 75.

PBOs also operate in a manner quite distinct from other general government organizations in terms of the appointment of their leaders, organization, personnel, budgets, and performance management. PBOs hire their leaders in open competitions. The hired leaders are then treated as government employees on a three-year contract basis. These leaders wield considerable autonomy over matters of organizational management, personnel, and budgets. They can create affiliates or subsidiaries of their organizations according to presidential decrees and create subunits according to the basic operating rules. PBO leaders also possess significant discretion over matters of personnel, promotions, transfers, employee assignments, and the hiring of contract-based employees that amount to 30 to 50 percent of their organizations' maximum possible number of employees. In addition, PBO leaders can decide what rewards and incentives employees receive. They can also use surplus revenue on basic expense items or otherwise have 20 percent of such surplus revenue carried forward to the subsequent fiscal term.

Performance evaluation at PBOs consists of internal project evaluations and the Management Competency Assessment conducted by MOSPA. Internal project evaluations are performed under the guidance of each PBO's operation review committee. While the PBO is free to decide the performance targets and indicators to be used in such evaluations, at least 10 percent of the evaluation result must be based on customer satisfaction scores. The Management

Competency Assessment, conducted by MOSPA's PBO Operating Committee, involves evaluating PBOs according to predefined grading criteria on project plans, internal project evaluations, organization and personnel management, efficiency and efforts for improving services, and the application of evaluation results.

C. Issues and possible solutions

Ironically, the effectiveness of the PBOP system has been limited so far in Korea due to the lack of organizations' autonomy over their designation, the appointment of their leaders, and management, along with the inadequacy of the existing evaluation system. Critics point out that PBOs in Korea are designated in a rather arbitrary and subjective manner. They insist that instead of designating a few PBOs each year, the Korean government needs to develop qualification guidelines, as done in the United Kingdom and New Zealand, so that all organizations meeting such qualifications can be naturally categorized as PBOs. Moreover, PBOs in Korea have difficulty attracting talented leaders due to the (relatively) meager remuneration and the limited nature of discretion the leadership position offers. It is therefore important to raise PBO leaders' salary to at least the level enjoyed by leaders at other public organizations, while also boosting their discretion and autonomy in the running of their organizations.

For increasing autonomy, it may be necessary to allow PBO leaders to hire up to 3 percent more than the required maximum number of employees, while also encouraging each unit or department to make use of their own revenue and carry-forwards in a more accountable manner by introducing performance-based wages and performance incentives/bonuses. Improvements are also required for the performance management of these organizations. The MSF's Autonomous Fiscal Program Evaluation, the internal project evaluations of individual departments and units, and MOSPA's general evaluation should all be combined, with a single independent group of evaluators evaluating PBOs, to ensure the reliability and objectivity of evaluation results.

VII

Competition and Privatization

Competition and privatization are two core principles of pro-market reforms. In this section, we analyze the effects and outcomes of the Korean government's privatization policy and competitive appointment system, which was both intended to enhance the efficiency of government functions and services and to identify any institutional and systemic improvements that are necessary.

1 Contracting-out and privatization

A. Definition

The pro-market reform programs attempted by the Korean government so far can be divided into two types. One involves converting governmental institutions into private ones, and the other involves introducing competition and incentive systems into governmental organizations to enhance their efficiency.¹⁷⁾ Contracting-out or outsourcing is a practice that provides a good example of the latter. While the practice can be defined in diverse ways, the Korean Rules on the Delegation and Contracting-out of Administrative Authorities defines it as “the act of assigning part of legally stipulated tasks

17) Ok Dong-seok and Choi Yeong-chul(1999), *A Study on the Introduction of the Market-Friendliness Test into the Public Sector*, EPB Research Service Report, p. 5 (re-quoted in Hwang (2006), p. 46).

and services of a given administrative organization to a private corporation, group, or individual so that said corporation, group, or individual may perform and handle them in its/his/her own name.”¹⁸⁾

Contracting-out represents an attempt to apply market principles to the public sector and is but one of many forms of privatization and means by which public services can be provided. Often favored as a means by small government, contracting-out commonly occurs when there is a need to deliver services that are repetitive in nature or require a significant degree of specialization or expertise. Examples include the maintenance and management of public facilities (e.g., for culture, sports, and other communal activities), the cleaning and security of buildings, the collection of wastewater and waste materials, and the processing of computer information. People agree or disagree with the contracting-out policy often for ideological reasons. As a rule, conservatives and businesspeople favor it, while progressives and workers oppose it.¹⁹⁾ Proponents argue that contracting-out will enhance the efficiency of government functions, helping the government both save on costs and improve the quality of its services. Opponents, on the other hand, argue that contracting-out carries risks of corruption and unfairness and undermines the public nature and accountability of government. The Korean government favors contracting-out with respect to projects and services that fit the following criteria: (1) promise to improve the quality of service and/or cut the cost greatly if left to the private sector, (2) already have an active private market, and (3) may significantly boost the creativity and efficiency of the private sector. The enduring influence of NPM theory has increased the number of sub-contracted government programs and services in Korea since the People’s Government.

B. Contracting-out today

Both central and local government organizations rely on contracted-out services and programs to a great extent. Yet it is difficult to obtain nationwide

18) Article 2.3 of the Rules on the Delegation and Contracting-Out of Administrative Authorities.

19) Hirsch (1995), p. 461 (re-quoted in Hwang (2006), p. 50).

data on the undertaking of such services and programs. In Ryu’s (2013) analysis of services and programs contracted out by local government organizations, she finds an absence of a well-organized system for the management of contracting out at the local government level. Local government officials either fail to analyze the feasibility and costs of contracted-out services in advance or local governments fail to create teams or departments capable of overseeing them. Over 30 percent of these contracts are private, thus failing to meet the goals of cost saving and service quality improvement. Local governments also hardly monitor and review the performance of these services and programs except in a perfunctory manner. In 68.6 percent of the cases, local governments did not assess the outcomes of contracted-out services and programs. They even failed to take proper actions against identified violations of laws or rules in 83.3 percent of the cases. Only 28.2 percent of the contracts were renewed due to good feedback on the outcome assessments.

〈Table VII-1〉 Contracting-out Today

Phase	Task	Status
Introduction	Organization of overseeing departments/teams	Yes: 27.9%, No: 69.7%
	Feasibility study	Performed: 47.7%, Not performed: 35.6%, Other: 16.7%
	Cost analysis	Performed: 31%, Not performed: 69%
	Contract method	Private: 30.8%, Other: 70.2%
Process	Monitoring	Performed: 82%, Not performed: 28%
	Actions against violations	Taken: 28.0%, Not taken: 83.3%
Outcome	Outcome assessment	Performed: 31.4%, Not performed: 68.6%
	Renewing contracts on the basis of outcome assessment results	Yes: 28.2%, Other reasons (e.g., recommendation from organization leaders, absence of competitors, etc.): 62.8%

Source: Ryu(2013).

C. Problems and possible solutions

One problem with contracting out is the limited scope of government functions to which it can apply. The existing laws on contracting-out state that only government tasks that do not directly bear upon the rights and duties of citizens may be contracted out. In order to enhance efficiency, however, the scope needs broadening to include even government functions that are directly related to people's rights and duties. Another problem concerns the selecting contractors. In Korea, using private contractors is still the norm because there are relatively few commercial businesses capable of handling the contracted-out tasks. However, there is also a lack of transparency and fairness in the bidding process, which tends to discourage businesses from participating. The Korean government thus needs to ensure the transparent disclosure of the bidding process and manage its outsourcing in a fairer manner. Contracting-out can maximize its intended effects only when there is a virtuous cycle of planning, preparations, operation, monitoring and supervision, performance evaluation, and feedback. It is crucial to create a supervising department or team to this end. Such a supervising department would need to monitor the entire process and continually make efforts to improve the public nature, efficiency, and professionalism of contracted-out programs and services.

2 Competitive appointment system

A. Overview

The Korean government adopted the competitive appointment system in order to attract the brightest and most talented individuals away from the private sector and enhance the professionalism and productivity of government functions and services. The competitive appointment system thus involves openly recruiting and screening candidates for the public service in a competitive manner, particularly with respect to areas of government services and policymaking requiring expertise and professionalism. The system has its legal basis in Article 28.4 ("Open Positions" in the Government Officials Act.²⁰) After the legal ground

for the competitive system was created in May 1999, it went into effect in November the same year, with 38 government ministries and departments creating 129 open positions. In February 2000, the Rules on the Operation of the Open Position System was created, thus consolidating the competitive appointment system further.

A number of these positions were open to people outside the civil service,²¹⁾ so that those most qualified for the job could be appointed to them, rather than the positions being filled through the automatic promotions of government employees. This meritocratic principle thus helps boost the efficiency of government functions. The competitive appointment system has led to 30 percent of senior executives and up to 20 percent of mid-level managers taking positions in the civil service because they satisfied the criteria of expertise, importance, democracy, innovation, and adjustability.

Competitive appointments are made with respect to positions in general administration as well as special services and assistants to contract-based high-level officials.²²⁾ Secretarial and security organizations (e.g., the Office of the President) and organizations with fewer than five senior executives each do not need to comply with the competitive appointment system. An

20) Article 28.4 (Open Positions), Government Officials Act: (1) Persons authorized to appoint government officials and/or persons authorized to nominate candidates for government officials may designate open positions for government functions or policymaking that require professionalism or efficiency. These positions are to be filled with officials who are to be recruited from either within the civil service or outside and to be screened and appointed on a competitive basis. All positions open to government employees of Levels 1 through 3 or equivalents (including senior executives, but not government officials assisting the heads of offices or bureaus), according to the Government Organization Act and other organization-related laws, except positions that can be filled by part-time government employees (except for the positions created by presidential decrees), shall be regarded as open positions.

(2) Persons authorized to appoint government officials and/or persons authorized to nominate candidates for government officials need also to define and provide for the conditions necessary to satisfy the requirements of open positions pursuant to Paragraph (1), and appoint or nominate qualified candidates to these positions.

(3) Deleted (December 31, 2008). (4) Other matters pertaining to the operation and management of open positions shall be decided according to the rules of the National Assembly, the Supreme Court of Korea, the Constitutional Court of Korea, and the National Election Commission, and/or presidential decrees.

21) Appendix 1 lists the open positions available in each ministry or department.

22) According to the MOSPA's *Operating Guideline on Open Positions and Hiring*, the main criteria for naming a position "open" are the extents of professionalism/expertise, importance, democracy, need for change, and adjustability the position entails. More detailed discussions are to follow in the next section.

open position offers a term of two to three years, and once completed the employee can return to the department or organization from where they originally came.

For each open position, the Appointment and Examination Committee nominates two to three candidates, ranking them in descending order of their qualifications or suitability. The responsible minister then makes his or her hiring decision according to the Committee's rankings unless other circumstances prevail. The initial term for each hired official is three years except otherwise stipulated. While people in open positions earn about 50 percent more than Level 5 government employees in general administration, they still earn far less than their equivalents in the private sector.

B. Issues and possible solutions

Of all the 1,126 senior executive positions available in 2012, only 311 (27.6 percent) were made available as open positions and only 235 of these positions (or 20.8 percent of all senior executive positions) were filled via competitive appointments. Over half of these appointments, or 147, were filled by people from within the civil service. Therefore, the main problem with Korea's competitive appointment system is that most appointments are still made from within the ranks of government employees. The screening process lacks efficiency and fairness and the brightest and most talented tend to avoid these positions. Private persons are also unlikely to apply due to the brevity of the contracts and the significantly lower remunerations on offer. The government may succeed in hiring highly competent and suited outside experts, but it is difficult for these experts to build sufficient rapport with work colleagues and work effectively when their terms are so limited. Also, the rather exclusive nature of the Korean civil service gives government employees a sense of pride that they are among the elite as the selected people. The openly hired officials are thus unlikely to find the closed and exclusive culture of Korean bureaucracy inviting or welcoming.

We can solve this problem by not limiting the terms of open positions. If the government allows competent and qualified people to work in these positions

for as long as they want, they will likely develop a greater sense of solidarity with and attachment to their new workplaces. Moreover, the government may need to diversify the channels via which government employees are hired to mitigate their sense of privilege and pride. This will likely increase the openness and inclusiveness of the Korean bureaucratic culture and lead to government employees accepting and working more harmoniously with people in open positions. Finally, the Korean government needs to raise open position pay rates at least to a level comparable with private-sector counterparts. Open-position applicants could be paid amounts in their initial term on a par with wages for government employees of similar levels, but once they prove their worth and competence by performing above and beyond given targets, they should be encouraged with salaries on a par with private-sector counterparts. The pay raises will in turn help recruit more talented and competent individuals from the private sector.

We also need to address the current practice of filling open positions with individuals drawn from the ranks of the civil service. Government employees occupy almost 60 percent of these positions, mitigating the purpose behind the competitive appointment system. Of course, we cannot completely disregard the likelihood that government employees, already acquainted with the complexities of government organization and service, will perform better during the screening process. However, current practices also reflect the lack of fairness in the screening process, as they are exclusively handled by government employees and their respective departments. To solve this problem, we need to centralize the competitive appointment process, relegating it to a central government human resources department to minimize local departmental interference. Private-sector experts could also be recruited to perform the recruitment and screening processes with greater objectivity and fairness.

〈Table VII-2〉 Open Positions in the Korean Civil Service

Year	High-ranking officials (Levels 1-3) (A)	Number of open positions (B) (B/A)	Number of filled positions (C) (C/A)	Internally drawn (D)	Drawn from outside (E)
				(D/A)	(E/A)
2006	1,026	207 (20.18%)	166 (16.18%)	94 (9.16%)	72 (7.02%)
2007	1,133	220 (19.42%)	196 (17.30%)	86 (7.59%)	110 (9.71%)
2008	1,116	188 (16.85%)	136 (12.19%)	64 (5.74%)	72 (6.45%)
2009	1,114	182 (16.34%)	149 (13.37%)	82 (7.36%)	67 (6.01%)
2010	1,105	198 (17.92%)	157 (14.21%)	86 (7.78%)	71 (6.43%)
2011	1,115	246 (22.06%)	194 (17.40%)	108 (9.69%)	86 (7.71%)
2012	1,126	311 (27.62%)	235 (20.87%)	147 (13.05%)	88 (7.82%)

Source: Kim and Lee(2013), p. 7.

VIII

Conclusion

This study evaluates NPM-inspired government reforms—attempted in Korea since the days of the Kim Dae-jung administration—using an opinion poll and expert interviews. From the results, it provides suggestions for the success of such reforms. As the opinion poll and expert interviews reveal, these government reforms have been implemented in Korea in a top-down manner, without consideration of the key preconditions that must be satisfied in order for such pro-market reforms to succeed or the compatibility of these reforms with the existing bureaucratic institutions and culture. Moreover, these reforms were pursued in a manner that limited the participation of actual government employees and involved little in the way of evaluations and feedback. The fact that the reforms were consistently given low scores in both the opinion poll and the expert interviews indicates that such reforms are far from being accepted and established in Korea.

To ensure the success of a reform, the government first needs to identify and analyze what preconditions must be met and how the reform is to be made compatible with the existing institutions and culture. Then it should develop systematic strategies and plans to accompany the reform. Once the strategies and plans are established, it should encourage participation in the reform campaign. Finally, the government needs to conduct an objective evaluation of the reform and its outcome and disclose the results to the public, thereby garnering the public's support and attention. This study reveals that most government reforms attempted in Korea so far have failed to live up to this ideal model. The utter incompetence of the government in handling the Sewol

ferry tragedy, the low scores it garnered on international evaluations, and its poor performance on our opinion poll and expert interviews all attest to the failure of its reforms. For reforms to succeed, the surrounding conditions and environment must support the success of those reforms. The Korean government needs to increase its transparency, autonomy, and professionalism—these are the indispensable prerequisites for the success of pro-market reforms. Once these preconditions are met, it needs to analyze and develop appropriate strategies and tactics to include active participation from government employees themselves in implementing the reforms. Then it must ensure continual improvements based on thoroughgoing evaluations and feedback.

NPM theory is not a magic wand that can solve all the problems of the Korean government and its organization, but nor is it a theory that should be discarded without careful thought and consideration. NPM theory offers much that could be both beneficial and harmful, depending on when and how it is applied. Past Korean administrations have failed with NPM-inspired government reforms because they introduced them without first satisfying the key preconditions for their success. NPM theory nonetheless provides important answers and principles that can help solve the ills continuing to plague Korean bureaucracy. By promoting competition, decentralization, accountability, and transparency, we can most certainly improve the efficiency and productivity of our civil service.

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