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Perceptions of Current Policy on the Management of Public Institutions: Policy Implications

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I

Research Background & Objectives

- ▶ Public institutions, which play a central role in the provision of public services for the citizenry in South Korea, were pivotal in facilitating the nation's economic development and industrialization in the past.
- ▶ Korea was able to achieve astonishing economic growth amid extreme uncertainty thanks to the efficiency of policy services provided by public institutions, which were strictly controlled according to the Korean government's emphasis on expediency.
- ▶ There is, however, growing demand for public services today that are oriented towards users, along with an increasing call for a paradigm shift in the policies of managing and controlling public institutions.
 - ▶ With the shortcomings of the traditional supply-centered approach to the exclusive production and delivery of services and goods by public institutions becoming clearer, there is growing interest in Korea towards increasing the diversity of public institutions and their services in the best interest of users.
- ▶ It is thus time for us to analyze and assess the supply-centered approach to the production of services and goods exclusively via public institutions, with a view to exploring new policies that will help shift the paradigm on the provision of public services.
 - ▶ This subject matter has been little handled in the existing literature as researchers and policymakers alike have accepted the conventional policy of public institution management as absolute, treating it as an unchanging given rather than as an object for empirical analysis and evaluation.

- ▶ Now is the time to break free from this inertia and assess the perceptions of policy on the management of public institutions and its performance.
- ▶ Evaluation of the Korean government's current policy on managing public institutions is necessary to check its efficiency and explore possible improvements.

II

Current Policy on the Management of Public Institutions

1. Major Programs of Control

- ▶ The current policy programs for managing public institutions are intended to ensure effective monitoring of the target institutions to prevent lax management and maximize the efficiency of services these institutions provide.
- ▶ The core programs forming the policy basis for public control over public institutions include (1) the public institution designation system (PIDS); (2) the management information disclosure requirement (MIDR); (3) the personnel increase review (PIR); (4) the total wage system (TWS); (5) the management performance evaluation (MPE); and (6) functional adjustment (FA).
- ▶ PIDS: Public institutions are organizations established and operated with government investment and fiscal support, and are designated as such pursuant to the Act on the Management of Public Institutions (AMPI).
- ▶ Pursuant to Paragraph 1, Article 6, of the AMPI, the Minister of Strategy and Finance is required to designate new public institutions, revoke designations, and make any needed designation changes within one month following the start of each fiscal year.
- ▶ Organizations designated as public institutions are subject to the policies and institutions of management implemented by the Ministry of Strategy and Finance (MOSF).

Table 1 Terms of Designation of Public Institutions (Para. 1, Art. 4, AMPI)

	Requirements
1.	An institution established by direct operation of another Act and via Government investment
2.	An organization to whom Government grants make up more than one-half (50%) of its total revenue
3.	An institution in which the Government holds at least fifty percent of outstanding shares, or secures practical control over, in making decisions on its policies through the exercise of power to appoint executives with at least 30 percent of such outstanding shares or otherwise
4.	An institution in which the Government, together with an institution falling under any of subparagraphs 1 through 3, holds at least fifty percent of outstanding shares or secures practical control over in making decisions on its policies through the exercise of power to appoint executives with at least thirty percent of such outstanding shares or otherwise
5.	An institution in which a single institution, or two or more institutions falling under any of subparagraphs 1 through 4, holds at least fifty percent of the outstanding shares or secures practical control over in making decisions on its policies through the exercise of power to appoint executives with at least thirty percent of such outstanding shares or otherwise
6.	An institution established by an institution falling under any of subparagraphs 1 through 4 via investment by the State or the establishing institution.

Note: "Government grants" include the proceeds that institutions earn from the activities they are designated to carry out, either upon direct delegation from the government or with the monopoly granted by the government.

Source: KIPF Research Center for State-Owned Enterprises, *Understanding Policy on the Management of Public Institutions: Vol. 2 – Institutions*, 2016, p. 10.

- Organizations that satisfy all the terms and conditions of Paragraph 1, however, are not automatically designated as public institutions. The following terms of un-designation may apply.

Table 2 Terms of Un-designation of Public Institutions (Para. 2, Art. 4, AMPI)

	Terms of Un-designation
1.	An institution established for the purpose of mutual aid, improvement of welfare, enhancement of interests, or maintenance of order in business transactions between its members
2.	An institution established by a local government and in whose management the local government is involved.
3.	The Korea Broadcasting System under the Broadcasting Act and the Korea Educational Broadcasting System under the Korea Educational Broadcasting System Act.

Source: National Law Information Center (NLIC), "Act on the Management of Public Institutions (Law No. 14461)" (retrieved July 24, 2017).

- ▶ MIDR: is intended to ensure the transparency and effective civic control of public institutions, and thereby improve their management efficiency, by requiring them to disclose and publish important information pertaining to their management (Art. 11, AMPI).
- ▶ Public institutions are to disclose and publish their management goals, budgets and operating plans, details of account settlement, and details of board members and operating personnel.
- ▶ The Korean government has also established a pan-governmental standard for information disclosure, requiring public institutions to publish their information on the Public Institution Management Information Disclosure System (www.alio.go.kr).
- ▶ The MOSF reviews the published information in terms of accuracy, etc.
- ▶ PIR: The PIR is an effective mechanism with which the Korean government limits and controls increases in the number of regular personnel at public institutions, thereby preventing institutions from aiming at inefficient expansion. The excessive rigor of this mechanism, however, may also compromise the autonomy of public institutions and their decision-making.

- ▶ The Korean government limits not only the total personnel number, but also the number of personnel at each given rank or level. Public institutions are also forbidden to create new positions solely for the purpose of improving the pay and other working conditions for their employees.

Table 3

Principles of Personnel Number Management: Guidelines for the Organization & Personnel of Public Institutions

Principles
(1) Public institutions may increase the number of employees they hire—except in some circumstances—first by reflecting their personnel needs, in conformity with MOSF limits on personnel increases, on their personnel increase plans for the next year and hiring according to budget.
(2) The creation of new posts or the operation of similar posts for the purpose of improving the financial and other forms of remuneration for employees is forbidden in principle. Institutions that wish to expand their organizations and number of personnel must first obtain approval from their boards.
(3) Personnel for the posts that no longer serve extensive functions as in the past due to changes in policy priorities or privatization are to be reassigned to other posts or laid off, with only the necessary and core personnel retained. (This may increase or decrease the total personnel numbers.) Institutions that have not applied for personnel increases for extended periods of time must consult the MOSF at least once every three years on the appropriateness of their personnel numbers.

Source: NLIC, “Guidelines for the Organization and Personnel of Public Institutions” (amended April 23, 2015) (retrieved July 24, 2017).

- ▶ TWS: In an effort to ensure fiscal efficiency and stability in public service charges and fees, the Korean government also limits increases in the total wages payable to public institution employees and inspects institutional compliance ex post.
- ▶ The PIR differs from the TWS as the former serves to ensure a priori (preemptive) control over the amount of resources to be mobilized for the management of given public institutions. As such, the PIR is intended to prevent the inefficiency of resource allocation and moral hazard by eliminating executive influence over hiring.

- ▶ MPE: The management performance evaluation is intended to improve the quality of public services by ensuring the autonomy and accountability of public institution management and providing expert advice for the improvements needed in such management.
- ▶ Public enterprises and quasi-governmental institutions undergo the MPE every year, with the results accordingly reflected in performance incentives and personnel decisions.
- ▶ Different criteria of evaluation apply to different types of public institutions (public enterprises, quasi-governmental institutions, etc.) as defined in Paragraphs 1 through 3 in Article 5 of the AMPI. Quasi-governmental institutions categorized as “strong but small” are subjected to less rigorous criteria of evaluation.
- ▶ Institutions are graded according to a six-grade scale (S, A, B, C, D, and E).

Table 4 Distribution of Public Institutions by Grade

Type	Superior (S)	Excellent (A)	Good (B)	Mediocre (C)	Deficient (D)	Very deficient (E)	Total
Public enterprises	None	4	15	5	5	1	30
Quasi-governmental institutions	None	12	33	33	8	3	89
Small but strong	None	(9)	(17)	(24)	(5)	(2)	(57)
Total	–	16 (13.4%)	48 (40.4%)	38 (31.9%)	13 (10.9%)	4 (3.4%)	119 (100%)

Source: MOSF press release (June 16, 2017).

- ▶ FA: The Korean government reviews and inspects the functions performed by public institutions, regularly establishes and updates plans on institutional mergers, functional readjustments and privatization, and changes the functions and status of public institutions accordingly.
- ▶ Public institutions have endogenous incentives to maintain functions that they no longer need to perform or perform functions already performed by other institutions or agents in an attempt to maintain their organizations and resources. It is thus crucial to ensure regular and continual checks of the functions performed by public institutions in light of changing socioeconomic conditions, demand for public services, and roles of the government.

Table 5 Principles of Functional Adjustment in Public Institutions

Principle	Description
Streamlining	Overlapping and unnecessary functions are to be shed through institutional merger and/or by centralization in stronger institutions.
No non-core tasks	Services and activities not essential to the founding purposes are to be reduced or eliminated.
Market openness	Private sector involvement in services and functions exclusively handled by public institutions are to be increased.
Competition support	Services and functions of public institutions that can now be capably provided by the private sector are to be reduced or eliminated.
Efficiency	Financial structures, management transparency, etc. are to be enhanced.

Source: MOSF-KIPF, *Handbook on Public Institutions in South Korea 2016*, 2016, p. 31.

2. Personnel & Wage Programs

- ▶ While the foregoing programs serve as mechanisms for ensuring control and supervision over public institutions, there are also diverse policy programs, concerning personnel and wages, that guide the management and operation of these institutions.
- ▶ Leading programs of recent note include (1) performance-based salaries (PBS), (2) wage peaks (WPs), (3) increasing women in managerial levels, (4) increasing the hiring of personnel with high school education, and (5) increasing the hiring of rural personnel.
- ▶ These programs have been instituted toward rationalizing the wage system, strengthening productivity, supporting social equality and diversity, and solving irrational personnel operation practices. The Korean government monitors and reviews, as part of the MPE, how well public institutions carry out these programs.

III

Opinion Poll & Analysis

1. Poll Overview

- ▶ In an effort to examine how the employees of public institutions themselves assess the policy programs governing management of their institutions, we surveyed public institution employees on their perceptions regarding the necessity of these programs and to what extent they contribute to the fairness, efficiency, autonomy, and accountability of their institutions.
 - ▶ Our survey specifically targeted public enterprises and quasi-governmental institutions subject to the MPE.
 - ▶ Mid-level managers and working-level officials working at these institutions were targeted for participation in the survey as they were seen to possess a good understanding of policy management programs.
- ▶ The questionnaire was distributed to 1,775 employees at 119 public enterprises and quasi-governmental institutions that underwent the MPE in 2016. In total, 610 employees of 116 enterprises participated.
 - ▶ The questionnaire was distributed via e-mail. Of the 1,775 e-mails sent out, 1,005 were read and 610 led to participation in the poll (response rate in terms of e-mails sent: 34.4 percent; response rate in terms of e-mails read: 60.1 percent).
 - ▶ Of the 119 institutions targeted, 116 had at least one employee participating (institutional response rate: 97.4 percent).
- ▶ The questionnaire mostly consisted of questions asking participants to assess the leading management policy programs for public institutions. The answers were structured using a seven-point Likert scale.

- ▶ The participants were to rate, as insiders, the policy management programs in terms of necessity and fairness and also of how they contribute to efficiency, autonomy, and accountability.

2. Results

- ▶ Public institution employee ratings of policy management programs varied considerably by program.
- ▶ Participants were generally favorably-inclined toward the MIDR and FA.
- ▶ However, they were reserved regarding the necessity of programs that directly controlled the management environments of public institutions, such as the PIR, the MPE, and the TWS.

Table 6 Perceptions of Government Systems for Managing Public Institutions

(Unit: Points)

System	Necessity	Fairness	Efficiency	Autonomy	Accountability	Average
MIDR	5.3	5.3	4.6	4.3	5.0	4.90
FA	5.0	4.7	4.6	3.8	4.2	4.46
PIR	4.7	4.4	4.4	3.3	3.8	4.12
MPE	4.2	4.1	3.9	3.1	3.8	3.82
TWS	4.1	4.0	4.1	3.2	3.6	3.80

Note: Participants were asked to rate the systems on a seven-point Likert scale. Scores closer to one indicate negative assessments. Scales closer to seven indicate positive assessment.

Source: *Opinion Poll on Systems and Policies for Management of Public Institutions* (October 2017)

- ▶ As Table 6 shows, public institution employees are either reserved or critical of the majority of policy programs for managing public institutions. They were especially negative toward the MPE and the TWS.
- ▶ The poor rating of the TWS, however, may reflect poll participants' own self-interest rather than a lack of objective necessity for the program.

- ▶ Although the MPE was introduced to check the results of public institutions' autonomous decisions by emphasizing their accountability in an ex post manner, public institution insiders viewed the program as having failed to contribute to institutional autonomy and accountability.
- ▶ Of the policy programs of control over public institutions, the one rated most favorably was the MIDR, which was assessed as contributing to all aspects of public institution management.
 - ▶ Poll participants rated the MIDR as contributing not only to fairness, but also to efficiency of public institutions, and also saw it as more effective than any other program in enhancing accountability.
- ▶ Public institution employees were favorably inclined to the MIDR because it represented the least amount of control over public institutions.
 - ▶ Whereas the other programs represent preemptive and direct control by the government on public institutions, the MIDR was relatively more ex post and indirect.
- ▶ Participants' negative perceptions of the MPE and the TWS carry contradictory implications.
 - ▶ From the government's perspective, such perceptions may seem to indicate the effectiveness of control that the programs imposed on public institutions. From the perspective of public institutions, however, such programs may represent excessive control and overreach.
 - ▶ The extents of control should vary from institution to institution depending on their capabilities and the nature of tasks they perform. Application of the same mechanisms of control across the board could result in backlash and resentment.
 - ▶ Although the government is inclined to justify the retention of these programs and their application in the interest of public accountability, it would be more effective and appropriate to apply them differently in light of the diversity of institutions.

Table 7 Assessment of Wage & Personnel Policies

(Unit: Points)

Policy	Necessity	Fairness	Efficiency	Autonomy	Accountability	Average
PBS	4.2	3.6	4.0	3.6	3.9	3.86
Women managers	4.1	4.0	3.4	3.4	3.5	3.68
High school graduates	4.0	4.1	3.3	3.1	3.3	3.56
Rural candidates	4.0	4.1	3.2	3.1	3.3	3.54
WPs	3.8	3.5	3.6	3.2	3.2	3.46

Note: Participants were asked to rate the systems on a seven-point Likert scale. Scores closer to one indicate negative assessments. Scales closer to seven indicate positive assessment.

Source: *Opinion Poll on Systems and Policies for Management of Public Institutions* (October 2017).

- ▶ When asked to rate the PBS and the WPs that form the framework of wage scales at major public institutions today, poll participants assessed the latter more negatively than the former.
- ▶ That public institution employees are more favorably disposed to the PBS suggests that they perceive it as more rationally designed than the WPs to reflect and strengthen productivity.
- ▶ The limited extent to which institutions may participate in the design and introduction of programs like the PBS and the WPs seems to limit employee acceptance.
- ▶ Poll participants were also rather reserved regarding the necessity or effectiveness of personnel programs promoting equality, such as preferences for hiring high school graduates and rural candidates.
- ▶ Although there has been a long ongoing discourse on the importance of the public sector in leading equality-promoting hiring practices by example, relatively few public institution insiders view these conscious policy programs as effective in achieving their intended objectives.
- ▶ Public institution employee ratings of these programs may reflect the difference in opinion between the government and public institutions on autonomy of the latter over hiring practices.

- ▶ Public institution acceptance of these equality-conscious programs will improve only when the personnel policy of assigning the most suitable candidates to each post is strengthened, in addition to introducing equality-conscious hiring practices.
- ▶ Equality-conscious hiring policies, in other words, should support reasonable management and assignment of personnel.

3. Empirical Analysis

- ▶ Public institution employee ratings of policy management programs, in terms of necessity and other effects, were subjected to statistical analysis.
 - ▶ This analysis revealed the diversity of views on the management policy programs of public institutions, and also the need to analyze and examine how these programs influence public institution insider behavior.
 - ▶ Existing literature offers numerous empirical analyses demonstrating the significant correlation between organizational performance/effect, on the one hand, and various factors of organizational trust, on the other.
 - ▶ Most analyses in this regard focus on trust in peers and trust in organizations as the main variables.
 - ▶ In the case of the Korean public sector, trust in government policies and institutions may also influence organizational effects in the forms of organizational immersion, job immersion, and organizational satisfaction.
 - ▶ The following equation was set up, along with an ordered logit model, to analyze the effects of trust in peers, organizations, and policies and institutions on public institution employee organizational immersion, job immersion, and job satisfaction.
- : Organizational effect, : Trust in organizations, : Trust in members,
: Trust in policies, : Control variables (organization type, etc.)

- ▶ Organizational immersion was measured in terms of dedication to, and interest in, organizations; job immersion, in terms of passion for one's job; and organizational satisfaction, in terms of satisfaction with the overall work environment.
- ▶ Of the 610 opinion poll participants, the average score for organizational immersion was 6.102; job immersion, 5.602; and organizational satisfaction, 5.195, all using a seven-point Likert scale. Organizational satisfaction scored lower than the other variables of organizational effects.
- ▶ The scores were 5.411 for trust in organizations, 5.939 for trust in peers, and 4.654 for trust in policies. Trust in policies lagged behind the other independent variables.
- ▶ The control variables included types of organizations and idiosyncratic attributes of individual poll participants.

Table 8 Descriptive Statistics

Variable type	Variable name	Average	Standard deviation
Dependent	Organizational immersion	6.102	1.034
	Job immersion	5.602	1.163
	Organizational satisfaction	5.195	1.416
Independent	Trust in organizations	5.411	1.317
	Trust in members	5.939	1.154
	Trust in policies	4.654	1.511

Note: The variables were measured according to a seven-point Likert scale, and therefore were given scores in positive integers ranging from one to seven.

Source: *Opinion Poll on Systems and Policies for the Management of Public Institutions* (October 2017).

- ▶ Trust in organizations, members, and policies all bore positive correlations to organizational trust, at statistical significance levels of one to five percent.
- ▶ Insiders of public institutions with high levels of trust in organizations and members enjoyed greater organizational immersion, suggesting that trust in organizations and members was more influential than trust in policies.

Table 9 Trust & Organizational Immersion

Variable	Level of organizational immersion	
	Coefficient	Standard error
Trust in organizations	0.626***	0.110
Trust in members	0.505***	0.124
Trust in organizations	0.137**	0.059
R-squared	0.184	
Obs.	610	

Note: The asterisks, ***, **, and *, represent significance levels at one percent, five percent, and 10 percent, respectively.

For discussion and analysis on control variables other than organizational types, see Hanjun Park et al., *Correlations Between Trust and the Organizational Effects of Public Institutions*, 2017.

Source: Park et al. (2017).

- ▶ However, trust in policies, too, bears significant correlation to organizational immersion.
- ▶ Policy management programs may be exogenous to public institutions, but bear direct influence on how public institutions are managed and individual employees perform their functions.

Table 10 Trust & Job Immersion

Variable	Level of job immersion	
	Coefficient	Standard error
Trust in organizations	0.848***	0.110
Trust in members	0.282**	0.113
Trust in organizations	0.118*	0.061
R-squared	0.184	
Obs.	610	

Note: The asterisks, ***, **, and *, represent significance levels at one percent, five percent, and 10 percent, respectively.

For discussion and analysis on control variables other than organizational types, see Park et al. (2017).

Source: Park et al. (2017).

- ▶ Job immersion was measured in terms of passion for one's work. Trust in organizations, members, and policies all bear positive correlations to job immersion, with statistical significance at one to 10 percent.
- ▶ In particular, employees of public institutions with relatively greater trust in organizations and members were more immersed in their jobs. Trust in organizations and members were the stronger factors in job immersion than trust in policies.
- ▶ Both organizational immersion and job immersion are most strongly correlated to trust in organizations rather than trust in members or policies.

Table 11 Trust & Organizational Satisfaction

Variable	Level of organizational satisfaction	
	Coefficient	Standard error
Trust in organizations	0.638***	0.107
Trust in members	0.284***	0.098
Trust in organizations	0.080	0.064
R-squared	0.202	
Obs.	610	

Note: The asterisks, ***, **, and *, represent significance levels at one percent, five percent, and 10 percent, respectively.

For discussion and analysis on control variables other than organizational types, see Park et al. (2017).

Source: Park et al. (2017).

- ▶ Organizational satisfaction was measured in terms of overall satisfaction with one's work environment. Trust in organizations and members bear positive correlations to organizational satisfaction, with statistical significance at the one-percent level.
- ▶ Trust in policies, on the other hand, fails to show a statistically significant correlation.
- ▶ Trust in organizations was more strongly correlated than trust in members to organizational satisfaction.

- ▶ Statistical analysis shows trust in organizations to be the most influential factor of organizational effects (organizational immersion, job immersion, and organizational satisfaction), while trust in members was also important.
- ▶ Trust in policies bears certain correlations to organizational and job immersion, but not to organizational satisfaction.
- ▶ Although the government's policies and institutions may directly and indirectly influence the growth and management of organizations as well as the behavior of their individual members, satisfaction in general is more correlated to endogenous factors, such as remuneration and promotions.

IV

Policy Implications

- ▶ The policy management programs for public institutions should be revisited with a view to enhancing institutional autonomy and accountability.
 - ▶ The key to eliminating the contradiction between autonomy and preemptive control is in enhancing institutional autonomy over their respective fields of services and activities.
 - ▶ The MPE, for instance, would be accepted as fully legitimate as an ex post mechanism of checks only when institutions were given sufficient autonomy over making their decisions in the first place.
- ▶ Another important change needed is to identify and distinguish between institutions that would benefit more from greater autonomy, on the one hand, and those that would benefit more from preemptive control, on the other, so that different policy programs of management could be applied. This, in turn, may require readjusting the types and functions of public institutions.
 - ▶ The Korean governments' policy management programs are generally unpopular among public institution insiders because they unilaterally imposed the same conventional and top-down approach to management.
 - ▶ Policy management programs and their application should be diversified in line with the diversity of public institutions. The system of institution categorization should be made reasonable and up-to-date.
 - ▶ Policymakers may begin the change by first examining which public institutions in Korea would fall into the category of state-owned enterprises for which the Organisation for Economic Cooperation and Development (OECD) recommends the application of SOE Guidelines.

- ▶ Specifically, although the PIR and TWS are effective mechanisms with which the government prevents unnecessary organizational growth out of organizational selfishness, the emphases and levels of even such preemptive control should be varied according to the needs and characteristics of institutions.
- ▶ The ends and means of policy management programs should be defined with clarity so as to ensure rational connection between them.
 - ▶ Although the MPE has been a central feature of the Korean government's policy on the management of public institutions for over three decades, public institution employees remain skeptical and critical of the program.
 - ▶ Management performance should be evaluated with central focus on outcomes and efficiency, yet the practice of evaluating public institutions in terms of how well they comply with government-recommended policies and the standard of fairness renders the purpose of the MPE ambiguous.
 - ▶ The Korean government should evaluate the performance of public institutions and their fairness practices separately.
- ▶ Rather than using the MPE as an instrument to realize the government's policy ideals of social equality and fairness, the Korean government should consider separating assessments of public institutions' fairness practices from assessment of their efficiency and performance.
 - ▶ Separating efficiency from fairness or social equality will help minimize ambiguity in the evaluation results and further facilitate the public's understanding of public institution efforts and performance in diverse aspects.
 - ▶ Separating evaluation of performance from evaluation of fairness and social equality requires development of a more refined methodology for assessing public institution contributions to social policy objectives.

- ▶ The Korean government should adopt more indirect methods of control, such as through the MIDR, that emphasize ex post supervision and grant public institutions the autonomy they need.
- ▶ Open and indirect programs of control could contribute better to the transparency of public institutions by enabling not only the government, but also civil society at large, to better monitor public institutions.
- ▶ The Korean government should also increase the flexibility of public-sector control mechanisms, distinguishing between institutions in need of greater autonomy and efficiency, on the one hand, and others in need of greater accountability and fairness, on the other.
- ▶ Institutions that should be granted autonomy in management and evaluation should be distinguished from those that simply provide services as agents of the government.

V

Overview

- ▶ Enhancing the trust of public institution employees in government policies and institutions is important to enhancing the effectiveness of public institutions.
- ▶ Transformational innovation is needed in the development and application of government control programs so that such programs will serve not as instruments of policy goals, but as sources of support for the efficient management of public institutions.
- ▶ A decade has elapsed since the AMPI was enacted in 2017. Now is the time for policymakers to review whether the diverse policy management programs have indeed contributed to the autonomy and accountability of public institutions as intended, and work on needed improvements and changes accordingly.

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