Evaluation System for Public Institutions in Korea

December 2012

Research Center for State-Owned Entities
Korea Institute of Public Finance
<table>
<thead>
<tr>
<th>Current Position</th>
<th>Executive Director of the Research Center for State-Owned Entities</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Major</strong></td>
<td>Economics</td>
</tr>
<tr>
<td><strong>Field of Study</strong></td>
<td>Public sector reform, Development economics, Conflict resolution</td>
</tr>
<tr>
<td><strong>Career</strong></td>
<td>2001~ now Professor, KDI School of Public Policy and Management (Absence of leave)</td>
</tr>
<tr>
<td></td>
<td>1998~2001 Division Head, Government Reform Office, Ministry of Planning and Budget</td>
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<tr>
<td></td>
<td>1992~1998 Associate Fellow, KDI (Korea Development Institute)</td>
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The Research Center for State-Owned Entities

Support and improve the government policy for SOEs

SOE Policy Research Team
- Research on national policies on SOEs

SOE Evaluation Research Team
- Research on performance evaluation system of SOEs

http://soe.kipf.re.kr/eng/Main.aspx
Overview

I. Current Evaluation System

II. Success Factors

III. Issues and Challenges

IV. Conclusion
I . Current Evaluation System
Typical problems of public corporations in developing countries

The cozy and symbiosis relationship between the government & SOEs (Case of Russia)

President

Medvedev

Prime Minister

Putin

Chairman of Gazprom

Zubkov

Revolving door(2008)

Joint Appointment

Ministers

CEO of SOE

CEO of SOE

Staffs of President

CEO of SOE
Inefficiency problems of public institutions

Lack of Control by the government

- Soft budget constraint
- Want of Accountability
- Lack of motivation

Korea has conducted management evaluation since 1984
As of 2012,
The total number of public institutions is subject to change annually
History of the evaluation system

- **1984 ~ 2003**: ME on public corporations
- **2004 ~ 2007**: ME on public corporations
- **2008 ~ Current**: ME on quasi-government organizations, ME on public institutions
Time frame

September

Public institutions & Evaluation team

SETUP
performance targets
performance indicators

November

Public institutions

REPORT
management performance

February

Evaluation team

EVALUATE
management performance

Consulting service for low graded PIs

September
Evaluation structure & procedure

Management Committee

Independent experts

Public institutions

Ministry of Strategy & Finance

Research Center for State-Owned Entities

Complaints & suggestion

Deliberation & resolution

Approve & finalize the system improvements

Finalize the evaluation result

Design system improvements

Suggest system improvements
Evaluation indicators

- Quantitative
- Non-quantitative

**PROCESS**
- Leadership & accountable management
  - leadership
  - accountable management
  - customer satisfaction
  - social responsibilities

**INPUT**
- Management efficiency
  - labor & asset productivity
  - budget & financial management and its performance
  - remuneration & performance management
  - labor-management

**OUTPUT**
- Core businesses
  - core business 1(plan, activities, performance)
  - core business 2(plan, activities, performance)
  - core business 3(plan, activities, performance)
Setting the target

Pressure for continuous improvement

\[ f(t-1) + \sigma \leftarrow \text{Upper target of year } t \]
\[ f(t-1) \]
\[ f(t-1) - 2\sigma \leftarrow \text{Lower target of year } t \]

\*\( \sigma \): Standard deviation of the past five years’ performances
Recent changes in indicators_Global performance indicator

- Productivity
- Level of service

PIs of OECD countries or other international competitors

<table>
<thead>
<tr>
<th>PI</th>
<th>Indicator</th>
<th>Lower target</th>
<th>Upper target</th>
</tr>
</thead>
<tbody>
<tr>
<td>IPA</td>
<td>Container volume</td>
<td>The lowest increase rate of world top 4 ports</td>
<td>Average Increase rate of world top 4 ports</td>
</tr>
<tr>
<td>Incheon Airport</td>
<td>Operational efficiency</td>
<td>ACI average score of world airports</td>
<td>ACI average score of top 3 Best In Class</td>
</tr>
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</table>

* ACI: Airports Council International
Recent changes in indicators_Mid & long term future indicators

Set up the strategic target for t+5 in advance

Goal & evaluation standard of year t

Current

Evaluation method (for some indicators)

Strategic target

15
Ⅱ. Success Factors
Balance between objectivity & subjectivity

53% Quantitative

- Labor & asset productivity
- Customer satisfaction
- Growth rate in the total personnel remuneration

47% Non-quantitative

- Accountable management
- Social responsibilities
- Labor-management control

Take into account exogenous variables that influence quantitative variables
Independence & Neutrality

Management Committee

Independent experts

Professors
CPAs

Report

Evaluate

State-owned entities

Evaluation manual

Ministry of Strategy & Finance

Suggest system improvements

Research Center for State-Owned Entities
<table>
<thead>
<tr>
<th>Management committee</th>
<th>1984</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Economic Planning Board (EPB)</strong></td>
<td>Chairman</td>
<td><strong>Minister of Strategy &amp; Finance</strong></td>
</tr>
<tr>
<td>6 government officials</td>
<td>35 government officials</td>
<td></td>
</tr>
<tr>
<td>5 civil experts</td>
<td>11 civil experts</td>
<td></td>
</tr>
</tbody>
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<table>
<thead>
<tr>
<th>Subjects</th>
<th>1984</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public corporations</td>
<td>Public corporations &amp; quasi-governmental institutions (expanded)</td>
<td></td>
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<table>
<thead>
<tr>
<th>Period</th>
<th>1984</th>
<th>2012</th>
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<tbody>
<tr>
<td>Report management performance goal of the following year <strong>by October 31</strong></td>
<td>Submit management performance report <strong>by March 20 of the following year</strong></td>
<td></td>
</tr>
<tr>
<td>Organize evaluation team &amp; complete evaluation <strong>by June 20</strong></td>
<td></td>
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<table>
<thead>
<tr>
<th>Indicators</th>
<th>1984</th>
<th>2012</th>
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<tbody>
<tr>
<td>▪ Comprehensive management</td>
<td>▪ Leadership &amp; accountable management</td>
<td></td>
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<tr>
<td>▪ Core businesses</td>
<td>▪ Core businesses</td>
<td></td>
</tr>
<tr>
<td>▪ Business management</td>
<td>▪ Management efficiency</td>
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</table>
### Match between external & internal evaluation

<table>
<thead>
<tr>
<th>Evaluation indicators</th>
<th>Grade</th>
<th>Workforce in charge</th>
<th>Performance rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indicator 1</td>
<td>A</td>
<td>Mr. Kim in charge of indicator 1</td>
<td>A</td>
</tr>
<tr>
<td>Indicator 2</td>
<td>C</td>
<td>Ms. Lee in charge of indicator 2</td>
<td>C</td>
</tr>
<tr>
<td>Indicator 3</td>
<td>B</td>
<td>Mr. Choi in charge of indicator 3</td>
<td>B</td>
</tr>
<tr>
<td>Indicator 4</td>
<td>D</td>
<td>Ms. Kim in charge of indicator 4</td>
<td>D</td>
</tr>
<tr>
<td>Indicator 5</td>
<td>B</td>
<td>Mr. Lee in charge of indicator 5</td>
<td>B</td>
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</table>
Feedback

* Performance bonus for each employee (based on monthly salary)

A (15.6%~25%)
B (43%~45.9%)
C (16.7%~24.8%)
D (8%~12.5%)
E (0.9~1%)

0% 0~100% 100~150% 150~200% 200~250% *

Removal of CEO & standing directors

(0.9~1%) *

2009~2011
Ⅲ. Issues and Challenges
Burden for public institutions

Efforts to improve the evaluation results
Write reports
Prepare for Q&A
Receive consulting

The government tries to ease the burden

Management evaluation
Myopic horizon

- Be in office for the short term (3 years + α)
- Annual evaluation

The government tries to introduce Mid-term planning
## Unequal footing

<table>
<thead>
<tr>
<th></th>
<th>Public institution 1</th>
<th>Public institution 2</th>
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<tbody>
<tr>
<td><strong>Year of establishment</strong></td>
<td>Evaluated since 1984</td>
<td>Evaluated since 2008</td>
</tr>
<tr>
<td>**Number of workforce</td>
<td>36</td>
<td>3</td>
</tr>
<tr>
<td>committed to the evaluation</td>
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**Trying to enforce training on the evaluation manual**

*(The role of the Research Center for State-Owned Entities)*
The government tries to reduce the number of performance indicators
Who is to be blamed?

- Maintain low public fares
- Low revenue
- Bad evaluation result
- Non-quantitative evaluation

Government?

Public institutions?
The government tries to strengthen the involvement of line ministries in the evaluation process.
IV. Conclusion
Suggestions

I. Form a neutral evaluation team
   Involve line ministries, but not too much

II. Create consequences of the evaluation

III. Improve the system continuously
Korea will be in the shoes of LAC thinking of the best solution for public institutions in LAC.
Muchas gracias!