



# Performance Evaluation of Public Institutions in Korea

**SONG, Joonhyuk**  
**YOO, Hanwook**

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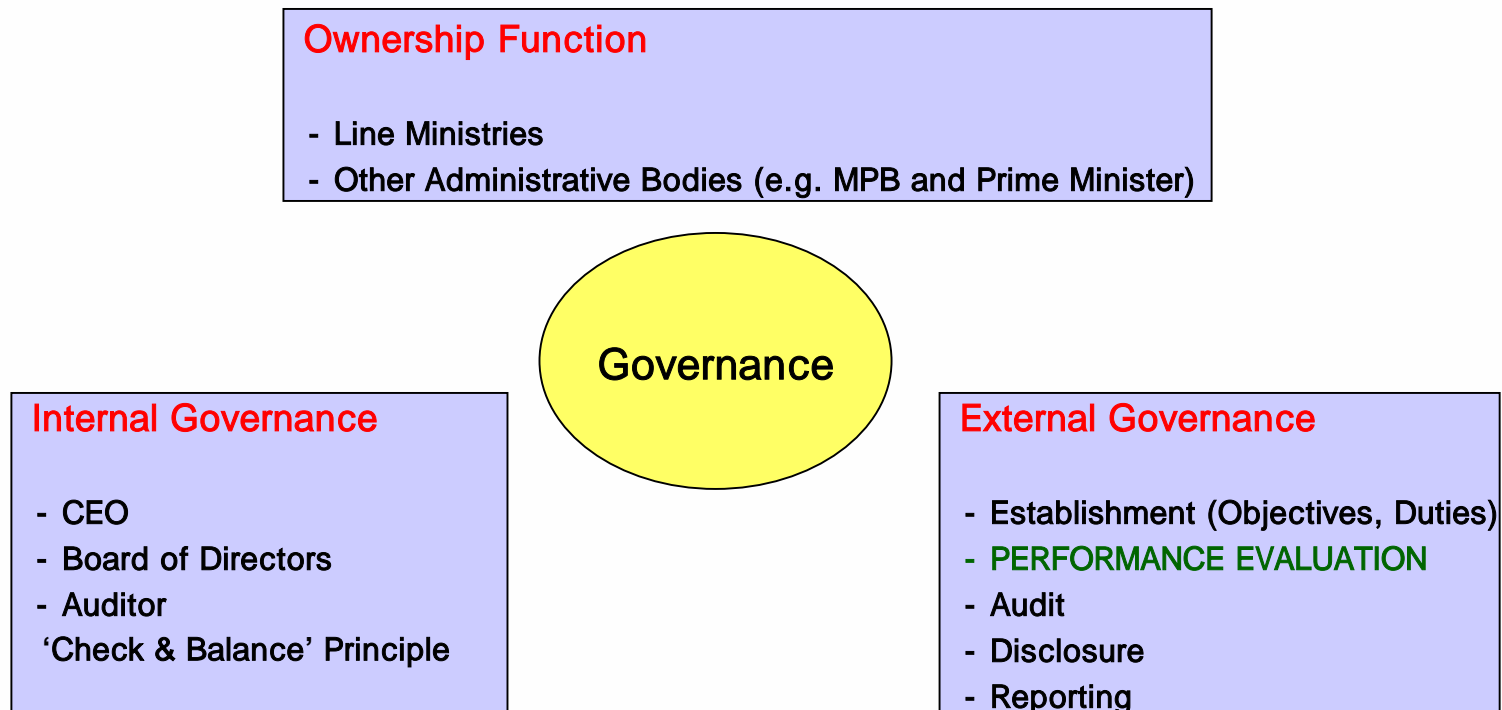
한국개발연구원  
Korea Development Institute



- ◆ **Governance and Performance Evaluation**
- ◆ **Public Institutions subject to PE**
  - GIs, GFIs, GAOs, and GIRIs
  - Problems in current classification
- ◆ **Current Evaluation System for GIs and GAOs**
  - Grouping institutions
  - Performance indicators of 3 main fields
  - Methods of measurement
  - Problems in current evaluation scheme
- ◆ **Recent Renovation Plan**
  - Confirmation of scope of public institutions
  - Reclassification of public institutions
  - Standardization of governance
- ◆ **Reformation of Evaluation System**

# I. Governance & Performance Evaluation

- ◆ **Governance: Internal/External Monitoring system to ensure that an institution carries out its duties and attains its objectives effectively.**



- ◆ **Performance Evaluation is an essential component of External Governance, encouraging an effective attainment of objectives through the accountability improvement.**

## ◆ Classification

### 1. Public Enterprises

- **Government-Invested Institutions (GIIs)**

- Government contributes more than 50% of the paid-up capital.
- Each has its own establishment law.
- 14 public corporations are subject to the 'Framework Act on the Management of GIIs.'
- 2 public broadcasting systems and 3 government-run banks are included.

- **Government-Financed Institutions (GFIs)**

- Government contributes less than 50% of the paid-up capital .
- Government has the largest share.
- 3 corporations subject to the 'Act on the Improvement of Managerial Structure and Privatization of Public Enterprises' are included.
- 5 other institutions are not subject to a certain framework act.

## ◆ Classification (*continued*)

### 2. Non-commercial Public Institutions

- **Government-Affiliated Organizations (GAOs)**

- Subject to the 'Framework Act on the Management of GAOs.'
- Receiving contributions or donations from the government.
- Commissioned or endowed with monopolistic business license from the government.

- **Government-Invested Research Institutions(GIRIs)**

- Subject to the 'Act on the Establishment, Operation and Fosterage of GIRIs (in the Science and Technology Area).'
- Established for research operations.
- Financed by governmental contributions.

# . Public Institutions in Korea (3)

## ◆ List of Public Institutions by Type

Types		Lists
GIs (19)	Subject to Framework Act (14)	Korea Electric Power Corp., Korea Highway Corp., Korea Coal Corp., Korea National Oil Corp., Korea Tourism Corp., Korea Trade-Investment Promotion Agency, etc.
	Not subject to Framework Act (5)	Korea Broadcasting System, The Korea Development Bank, The Export-Import Bank of Korea, etc.
GFIs (8)	Subject to Framework Act (3)	Korea Gas Corp., Incheon International Airport Corp., Korea Airports Corp.
	Not subject to Framework Act (5)	Kookmin Bank, Daehan Investment Management Company Ltd., Korea Investment Company Ltd., etc.
GAOs (88)		Korea Transportation Safety Authority, Korea Housing Guarantee Company Ltd., Korea Appraisal Board, National Health Insurance Corp., The Korea Chamber of Commerce and Industry, Busan Port Authority, Korea Science and Engineering Foundation, National Pension Corp., etc.
GIRIs (45)	Economics, Humanities, and Social Science (23)	Korea Development Institute, Korea Institute of Public Administration, Korea Labor Research Institute, etc.
	Science and Technology (22)	Korea Institute of Science and Technology, Electronics and Telecommunications Research Institute, Korea Research Institute of Standards and Science, etc.

## ◆ Problems of Current Classification

### 1. Ambiguity between GIs and GFIs

- Government has the largest share in both types.  
Both are controlled and regulated by the government solely.
- For 2 of 3 GFIs subject to the Privatization Act, the government's share is 100%.  
\* Government actually has no plan of privatization of three GFIs.

### 2. More than 10% of 88 GAOs are doing commercial business

- 4 Institutions had been classified as GFIs, but were reclassified as GAOs after the enactment of GAO Act (e.g. Korea Housing Guarantee Company Ltd., Korea District Heating and Corp., and Korea Appraisal Board).
- Several other GAOs' functions are commercial (e.g. Korea Racing Association and Busan Port Authority).

### 3. 3 GIs do non-commercial business

- e.g. KOTRA and Korea Agricultural and Rural Infrastructure Corp.

# Performance Evaluation System (1)

## ◆ Summary

Types	Legal Bases	Ownership Function	Performance Evaluation Schemes
<b>GIs</b>	<b>GII Act ('84)</b>	<b>Ministry of Planning and Budget (MPB)</b>	<ul style="list-style-type: none"> <li>- MPB set the standard criteria</li> <li>- Institution Evaluation ('84)</li> <li>- CEO Evaluation ('00)</li> <li>- Management Contract</li> <li>- Performance Related Pay (PRP)</li> <li>- Customer Satisfaction Measurement (CSM) ('99)</li> </ul>
<b>GFI</b> Subject to Privatization Act	<b>Privatization Act ('97)</b>	<b>Ministry of Finance and Economy (MFE)</b>	<ul style="list-style-type: none"> <li>- CEO Evaluation ('98) by Board of Directors</li> <li>- Management Contract &amp; PRP</li> <li>- CSM ('99)</li> </ul>
<b>GAOs</b>	<b>GAO Act ('04)</b>	<b>MPB or Line Ministries</b>	<ul style="list-style-type: none"> <li>- Line ministries set the standard criteria</li> <li>- Institution Evaluation ('05)</li> <li>- CSM ('05)</li> </ul>
<b>GIRIs</b>	<b>GIRI Act ('97)</b>	<b>Prime Minister or Ministry of Science and Technology</b>	<ul style="list-style-type: none"> <li>- Research Councils set the common criteria</li> <li>- Institution Evaluation ('00)</li> <li>- CSM ('05)</li> </ul>

# . Performance Evaluation System (2)

## ◆ Process of Performance Evaluation (GIIs and GAOs)

Signing Management Contract	
- CEO ↔ Institutions	- CEO ↔ Minister of line ministry
Submission of Management Goal	
- CEO Ministers of MPB and line ministry	- CEO Minister of line ministry
Reporting	
- CEO National Assembly, MPB and line ministry	- CEO Line ministry
- Report on the management performance	- Report on the management performance
- Report on fulfillment of the management contract	- Financial statements and balance of sheets
<b>GII</b>	<b>GAO</b>

# Performance Evaluation System (3)

Performance Evaluation		
<b>In Charge</b>	<b>Minister of MPB</b>	<b>Minister of line ministry</b>
<b>Performance Indicators and Methods of Evaluation</b>	<b>Set by the minister of MPB through approval of the Management council</b>	<b>Set by minister of line ministry through a discussion with CEO and approval of the Management council</b>
<b>Evaluator</b>	<b>A group of outside experts organized by the minister of MPB</b>	<b>A group of outside experts organized by minister of line ministry</b>
<b>Report on Evaluation Results</b>	<b>Minister of MPB National Assembly and President</b>	<b>Minister of line ministry Minister of MPB and National Assembly</b>
<b>Feedback of Evaluation Results</b>	<b>Minister of MPB can recommend dismissal of CEO and the executive director with bad performance</b>	<b>Minister of line ministry can recommend budget decrease (or increase) or dismissal of CEO with bad performance</b>

## ◆ Details of Performance Evaluation

### 1. GIs

- Focusing on measurement of publicity, attainment of management goals and effectiveness.
- 14 GIs are categorized into 3 groups based on their functional characteristics.

<b>Construction &amp; Services (6)</b>	Korea Electric Power Corp. Korea Highway Corp. Korea Land Corp. Korea National Housing Corp. Korea Railroad Korea Water Resources Corp.
<b>Manufacturing (3)</b>	Korea Coal Corp. Korea National Oil Corp. Korea Minting and Security Printing Corp.
<b>Promotion (5)</b>	Agricultural and Fishery Marketing Corp. Korea Agricultural and Rural Infrastructure Corp. Korea Resources Corp. Korea Tourism Corp. Korea Trade-Investment Promotion Agency

# . Performance Evaluation System (5)

- **Performance is measured in 3 fields**
  - Comprehensive Management (CM)
  - Key Business Operations (KBO)
  - Internal Management (IM)
- **Indicators are made up of quantifiable as well as non-quantifiable ones**
  - Different weights are assigned to each field of different groups reflecting organizational and functional differences.
  - Higher weights are assigned to non-quantifiable indicators (60 of 100).
- **Weight distribution by groups**

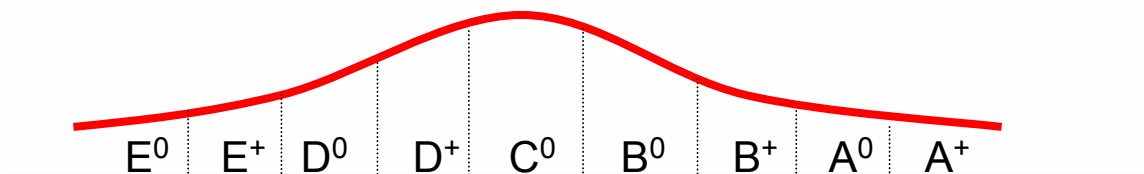
Fields Types	Construction & Services			Manufacturing			Promotion		
	Quanti	Non	Total	Quanti	Non	Total	Quanti	Non	Total
CM	15	15	30	13	17	30	10	20	30
KBO	15	20	35	17	18	35	20	15	35
IM	10	25	35	10	25	35	10	25	35
<b>Total</b>	<b>40</b>	<b>60</b>	<b>100</b>	<b>40</b>	<b>60</b>	<b>100</b>	<b>40</b>	<b>60</b>	<b>100</b>

- **Methods of Performance Measurement**

- Quantifiable Indicators

- Result vs. Goal Evaluation : result / goal
- Goal Range Assignment (GRA) :  $(\text{result} - \text{goal}_{\min}) / (\text{goal}_{\max} - \text{goal}_{\min})$
- Trend Evaluation

- Based on normal distribution (15 years usu.)
  - Based on  $\beta$  distribution (5 years usu.)
- } → 9-grade evaluation



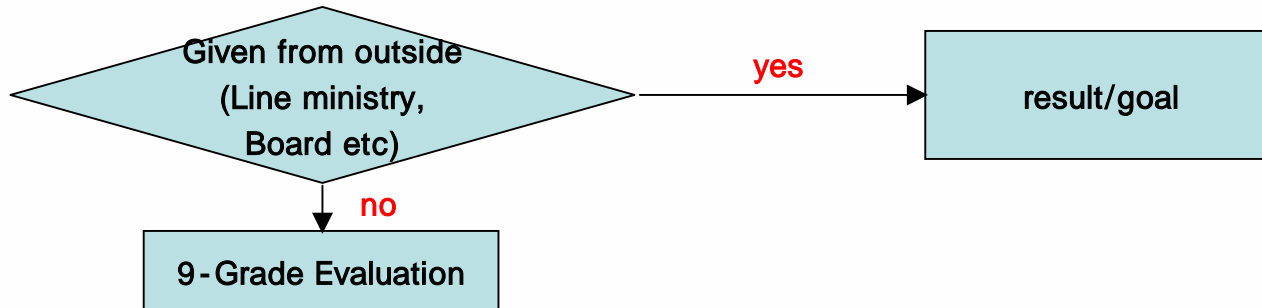
- Non-quantifiable Indicators

- 9-grade evaluation : E<sup>0</sup>(0), E<sup>+</sup>(12.5), ..., A<sup>0</sup>(87.5), A<sup>+</sup>(100)

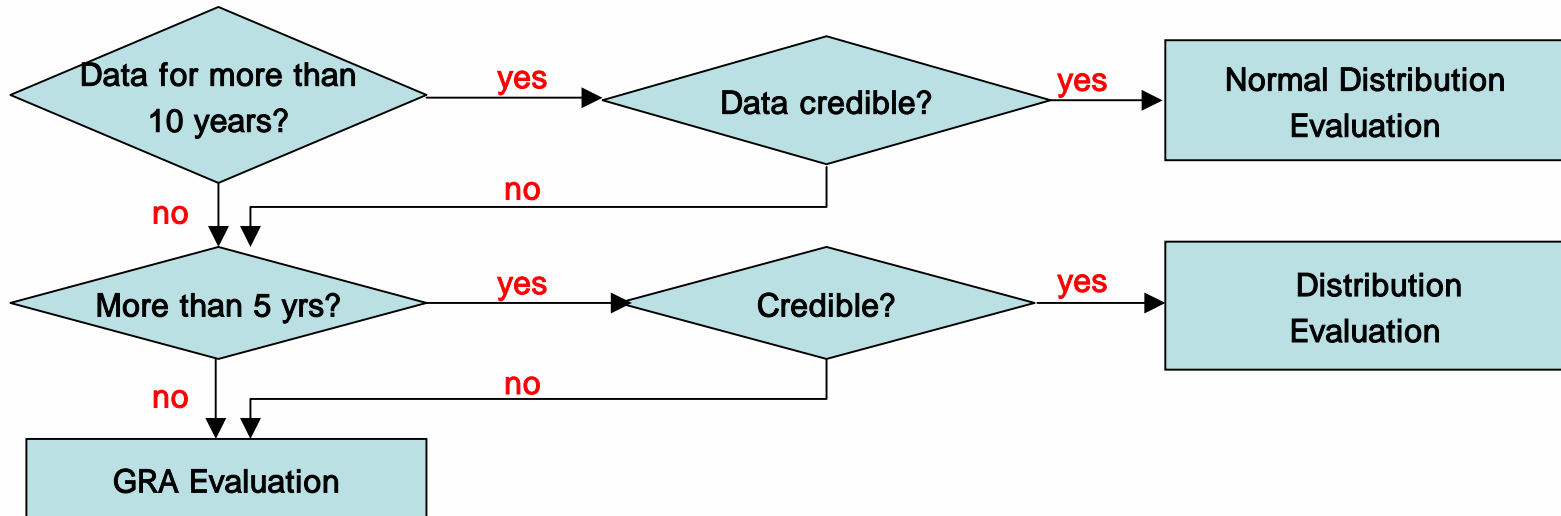
# . Performance Evaluation System (7)

- Criteria of measurement method for quantifiable indicators

- Goal is exogenously given



- Goal is not exogenously given



# Performance Evaluation System (8)

## • An example of Performance Evaluation (Korea Electric Power Corp.)

Comprehensive Management			Key Business Operations			Internal Management		
Indicators	Methods	w	indicators	Methods	w	Indicators	Methods	W
- Accountable management and improvement in publicity	9-grade	3	<ul style="list-style-type: none"> <li>• Management of Electric Power Demand</li> <li>- Efficiency</li> <li>- Sustenance of high load factor</li> <li>• Management of Power Transmission and Distribution</li> <li>- Transmission cost control</li> <li>- Distribution cost control</li> <li>- Voltage control</li> <li>- Maintenance of Transmission Disorder</li> <li>- Construction of power transmission and transformation facilities</li> <li>- Planning/operation of power transmission and transformation business</li> <li>• Other business</li> <li>- Developing EP industry</li> <li>- Developing int'l business</li> <li>- Management of subsidiaries</li> </ul>	9-grade result/goal	4	<ul style="list-style-type: none"> <li>• Human Resources Management</li> <li>- Organization &amp; personnel management</li> <li>- Payment level</li> <li>- Labor cost control</li> <li>- Labor cost/sales</li> <li>- Payment structure</li> <li>- Labor-management control</li> <li>- Internal evaluation</li> <li>• Finance and Budget Management</li> <li>- Financial policy</li> <li>- Financial structure</li> <li>- Budget management</li> <li>- Management cost per capital</li> <li>• Other Management</li> <li>- Information management</li> <li>- R&amp;D</li> </ul>	9-grade	4
- Management renovation	9-grade	4		N dist.	2		9-grade GRA	3
- Social accountability and ethical management	9-grade	3		N dist.	3		9-grade	2
- Activation of board of directors	9-grade	2		GRA	3		9-grade	2
- Labor productivity	GRA	5		GRA	2		9-grade	3
- Capital productivity	GRA	5		result/goal	3		N dist.	2
- Customer satisfaction	9-grade	3		9-grade	4		9-grade	5
- Improvement in customer satisfaction	GRA	3		9-grade	3		N dist.	3
- Growth in business	dist.	2		9-grade	2		9-grade	2
Total weights		30	Total weights		35	Total weights		35

# Performance Evaluation System (9)

## • Performance Evaluation for CEO

- CEO's performance is measured in 3 fields.
  - Comprehensive Management (CM)
  - Management Goals (MG)
  - Management Renovation (MR)
- Methods of Measurement : same as methods for Institution Evaluation
- Weight distribution in CEO evaluation by group

Fields Types	Construction & Services			Manufacturing			Promotion		
	Quanti	Non	Total	Quanti	Non	Total	Quanti	Non	Total
CM	15	15	30	13	17	30	10	20	30
MG	21	9	30	21	9	30	21	9	30
MR	12	28	40	12	28	40	12	28	40
Total	48	52	100	46	54	100	43	57	100

# . Performance Evaluation System (10)

- **Feedback of Evaluation Results**

- Performance-Related Pay (PRP): Incentive payment for CEO based on Evaluation results
- For CEOs with bad performance, the minister of MPB recommends their dismissal to the president through approval from the management council of GILs.

- **Problems in Performance Evaluation of GIIIs**

- Improperness due to wrong classification (e.g. KOTRA is not a commercial body)

- Reclassification**

- Double measurement of Institutions and CEO's performance

- {Performance Indicators for CEO}    {Performance Indicators for Institution}

- Unification of the two evaluation schemes**

- Same weight distribution between quantifiable and non-quantifiable indicators for all GIIIs despite of differentiated output measurability

- Raising weights of quantifiable indicators for strongly commercial bodies**

- Some indicators are strongly qualitative while others are overly-detailed.

- Streamlining of performance indicators**

# . Performance Evaluation System (12)

## 2. GAO's

### • Methods of measurement and criteria

- Standard methods and criteria are set by the management council for GAO's and informed to ministries of line ministries.
- Basing on standard methods and criteria, ministers of line ministries set detailed methods and criteria for their own competent bodies.

### • Process of Performance Evaluation ('04~'05)

- ~July, 04 : Ministers of line ministries make manuals of performance evaluation for their institutions through discussion with CEOs
- ~Mar, 05 : CEOs of GAOs submit reports on management performance, financial statements and balance of sheets to ministers of line ministries
- ~Jun, 05 : Ministers complete performance evaluations and submit evaluation results to the minister of MPB
- ~Aug, 08: The minister of MPB submits integrated evaluation results to the National Assembly

# . Performance Evaluation System (13)

- Categorizations of GAOs into 8 groups

Groups	Lists
Inspection & Authorization (11)	Korea Transportation Safety Authority, Korea Gas Safety Corp., Korea Electrical Safety Corp., etc.
Finance & Commerce (12)	Korea Securities Depository, Korea Exchange, Korea District Heating Corp., etc.
Culture & Living (13)	Korea Sports Council, Korea Science Foundation, Korea National Parks Authority, etc.
Industry Promotion (6)	Korea Films Council, Korea Energy Management Corp., National Computerization Agency, etc.
Training & Education (5)	Korea Labor Education Institute, Human Resources Development Service of Korea, etc.
Construction & Facility Management (10)	Busan Urban Transit Authority, Korea Rail Network Authority, Korea Container Terminal Authority, etc.
R&D Support (6)	Korea Photonics Technology Institute, Korea Institute of Nuclear Safety, etc.
Pension/Fund Operation (15)	Government Employees Pension Corp., Korea Credit Guarantee Fund, Korea Asset Management Corp., etc.

# . Performance Evaluation System (14)

- **3 Main Fields for Performance Evaluation : same as in GIs**
  - Comprehensive Management (CM)
  - Key Programs (KP)
  - Internal Management (IM)
- **Performance Indicators by Field**

CM	KP	IM
<ul style="list-style-type: none"> <li>- CEO's leadership and performance for vision achievement</li> <li>- Ethical management and activation of board</li> <li>- Execution of management renovation</li> <li>- Customer satisfaction</li> <li>- Productivity</li> </ul>	<ul style="list-style-type: none"> <li>- Linkage between objectives and programs</li> <li>- Program A</li> <li>- Program B</li> <li>- Program C</li> <li>...</li> </ul>	<ul style="list-style-type: none"> <li>- Organization and personnel management</li> <li>- Payment and labor-capital management</li> <li>- Finance and budget management</li> <li>- Information management</li> <li>- Internal evaluation system and its linkage with the external evaluation</li> </ul>

# Performance Evaluation System (15)

- Weights for each field by group

Groups	Weights by Field			Weights of Quantifiable Indicators
	CM	KP	IM	
Inspection & Authorization	30	40	30	40
Finance & Commerce	30	40	30	40
Culture & Living	35	35	30	35
Industry Promotion	35	35	30	35
Training & Education	30	35	35	35
Construction & Facility Management	25	40	35	40
R & D Support	30	40	30	35
Pension/Fund Operation	25	35	40	40

# . Performance Evaluation System (16)

## • Problems in Performance Evaluation of GAOs

- Differentiated governance due to different individual establishment laws or statutes: GAOs in the same group have different governance structures and thus applying the same performance evaluation scheme is problematic.
- Some GAOs are additionally subject to other framework act than GAO Act: There can be some conflict in executing performance evaluation scheme with multiple acts.
  - \* 3 GAOs in the 'R&D Support ' group are also subject to the 'Framework Act on Science & Technology.'
  - \* Every GAO in the 'Pension/Fund Operation' group are also subject to the 'Framework Act on the Management of Fund.'
- Improper Classification: Many GAOs actually do commercial business (e.g. Korea Appraisal Board, Korea Racing Association, and Environment Management Corp.).

# IV. Recent Renovation Plan (1)



## ◆ Confirmation of Scope of Public Institutions

1. Based on the possibility of effective governmental control and the degree of publicity and financing from the government
2. 314 Public institutions in total

Types	Descriptions	Numbers
Government-Invested	Government has the largest share	31
Government-Contributed	Government contributes by a legal basis	113
Commissioned or Delegated	Governmental support (subsidy, contribution, commission, fees...) > 50% of total revenue	97
Subsidiary or Refinanced	A public institution has the largest share	73

### 3. Different management schemes

Types	Management Schemes	Numbers
All Public Institutions	Disclosure of management information	314
More than 100 employees	Performance evaluation	187
Subject to GII, GAO and Privatization Acts; Less than 50 employees	Governance renovation	94

## ◆ Reclassification of Public Institutions Subject to Renovation

### 1. First Step

- **Public enterprises: (commercial revenue)/(total revenue) > 50%**
- **Quasi-governmental bodies: (commercial revenue)/(total revenue) < 50%**

### 2. Second Step

- **Public enterprises**
  - Market type: CR/TR > 90%; Asset value > 2 trillion won (\$2 billion)
  - Quasi-market type: others
- **Quasi-governmental bodies**
  - Fund management type: operate governmental funds
  - Commissioned/delegated type: others

### 3. Results of Reclassification

- **Public enterprises: 17 27**
- **Quasi-governmental bodies : 77 67**
  - \* 13 GAOs are reclassified into public enterprises
  - \* 3 GIIs are reclassified into quasi-governmental bodies

# IV. Recent Renovation Plan (3)



## ◆ Standardization of Governance by Type

	Public Enterprises		Quasi-governmental Bodies	
	Market	Quasi-market	Fund management	Commissioned or Delegated
<b>Function</b>	Commercial	Quasi-commercial	Operation of governmental funds	Execution of public policy
<b>Governance</b>	Strong private firm principle	Private firm principle + Partial control by the government	Public management	Public management
<b>Board System</b>	Board-centered	Board-strengthened	Advisory board	Dual board
<b>Ownership Function</b>	MPB (Management council of public enterprises)		Line ministry + MPB (Management council of quasi-governmental bodies)	

# V. Seeking a New Evaluation System

## ◆ Reformation of Performance Evaluation System

### 1. Strengthening Objectivity

- Reducing the total number of performance indicators
- Increasing the portion of quantifiable indicators
- Utilizing outside experts

### 2. Focusing on Strategic Goals

- Strengthening performance indicators for essential strategic goals
- Excluding performance indicators for independent activities

### 3. Improving Accountability through Enhancing Feedback of Evaluation

- Augmenting PRP
- Linking reappointment/dismissal of board directors as well as of CEOs to the evaluation results