

Management System in Korea for Oversight of Public Institutions

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Research Center for SOEs
Korea Institute of Public Finance



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The Current Status of Public Institutions



Significance of public institutions in Korea

- Major public institutions have played a vital role in developing Korean economy and industries.



Significance of public institutions in Korea

- Provide public services important for everyday life
(implementing and providing service to public, as opposed to policy-making)

Infrastructure services	Promotion of agriculture	Support for SMEs	Assistance for R&D
 <p>KORAIL 한국철도 Korean Railroad</p>	 <p>노컷뉴스 Korea Rural Community Corporation</p>	 <p>FACE SUNGLASS ANTI-UV · ANTI-FOG · ANTI-BACTERIAL MIT 500 SBC Small & medium Business Corporation</p>	 <p>KIAT Korea Institute for Advancement of Technology</p>
 <p>KEPCO KOREA ELECTRIC POWER CORPORATION</p>	 <p>aT Korea Agro-Fisheries & Food Trade Corp.</p>	 <p>SBDC 중소기업유통센터 Small Business Distribution Center</p>	 <p>KIMST KIPf 한국조세제정연구원</p>

Designation and Classification of Public Institutions

Public
Institutions
(339)

Public
Corporations
(SOEs)
(36)

- Generates 50% or more Revenue by itself
- SOC, Energy, etc.



Quasi-
governmental
Organizations
(QGOs)
(93)

- Generates less than 50% revenue by itself
- Perform business on behalf of the Gov.
- Pension, Healthcare, Policy finance



Non-classified
Public
Organizations
(210)

- PIs excluding SOEs and QGOs
- Requires separate management system from SOEs and QGOs
- Unique and self-controlling characteristics
- Diplomatic and security reasons



Designation and Classification of Public Institutions

Public Corporations Self-generating revenue to total revenue ratio ($\geq 50\%$)	Market-based
	Self-generated revenue to total revenue ratio ($\geq 85\%$) (with an asset size ≥ 2 trillion won)
	Quasi-market-based
	($85\% >$) Self-generated revenue to total revenue ratio ($\geq 50\%$)
Quasi-governmental institutions Self-generating revenue to total revenue ratio ($< 50\%$) & more than 50 employees	Fund-management-based
	Manage State Funds in accordance with the National Fiscal Act
	Commissioned-service-based
	Entities other than fund-management-based organizations

The Important Role of Public Institutions

- Public Institutions has played a major role of carrying-out major presidential policy agenda 🖱️ Has supported Economic and Social Development



- **Administrative City**
- **Innovative City**
- **Balanced National Development**

- **Green Growth**
- **International Science & Business Belt**

- **Creative Economy**
- **Economic Innovation**

- **Inclusive Growth**
- **Innovative Growth**

- Major player in the National Economy
- Provide essential public services to citizen for improvement of quality of life

The Current State of Public Institutions

Budget (2018)

- Approx. USD 533 billion
- 33.8% of GDP
- 1.5 times larger the Government Budget

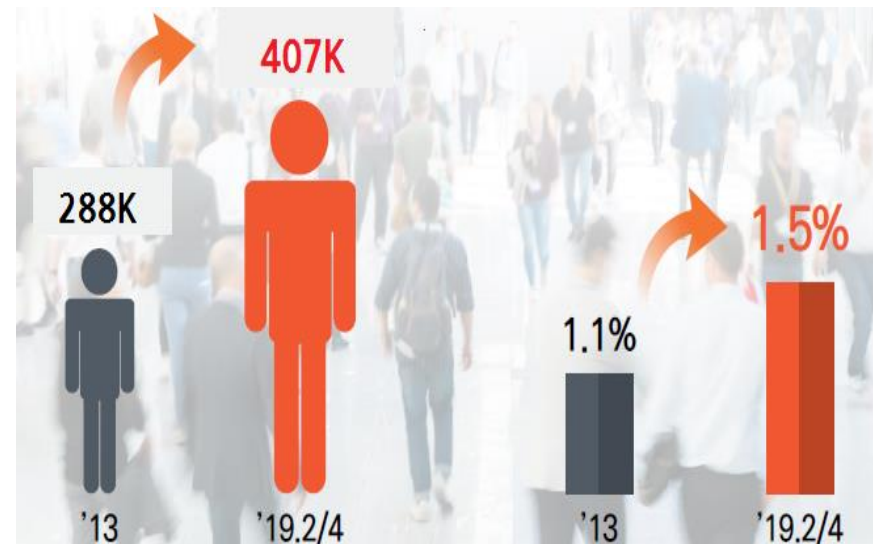


Budget

The proportion of GDP

Workforce (2019.2Q)

- 407 thousands employed
- 1.5% of the national workforce



Total Workforce

The proportion of the national workforce

2 The Governance of Public Institutions



History of legal basis

1984

- Framework Act on the Management of Government-Invested Institutions (FAMGII)
*(‘99) Abolished “government board of director” system

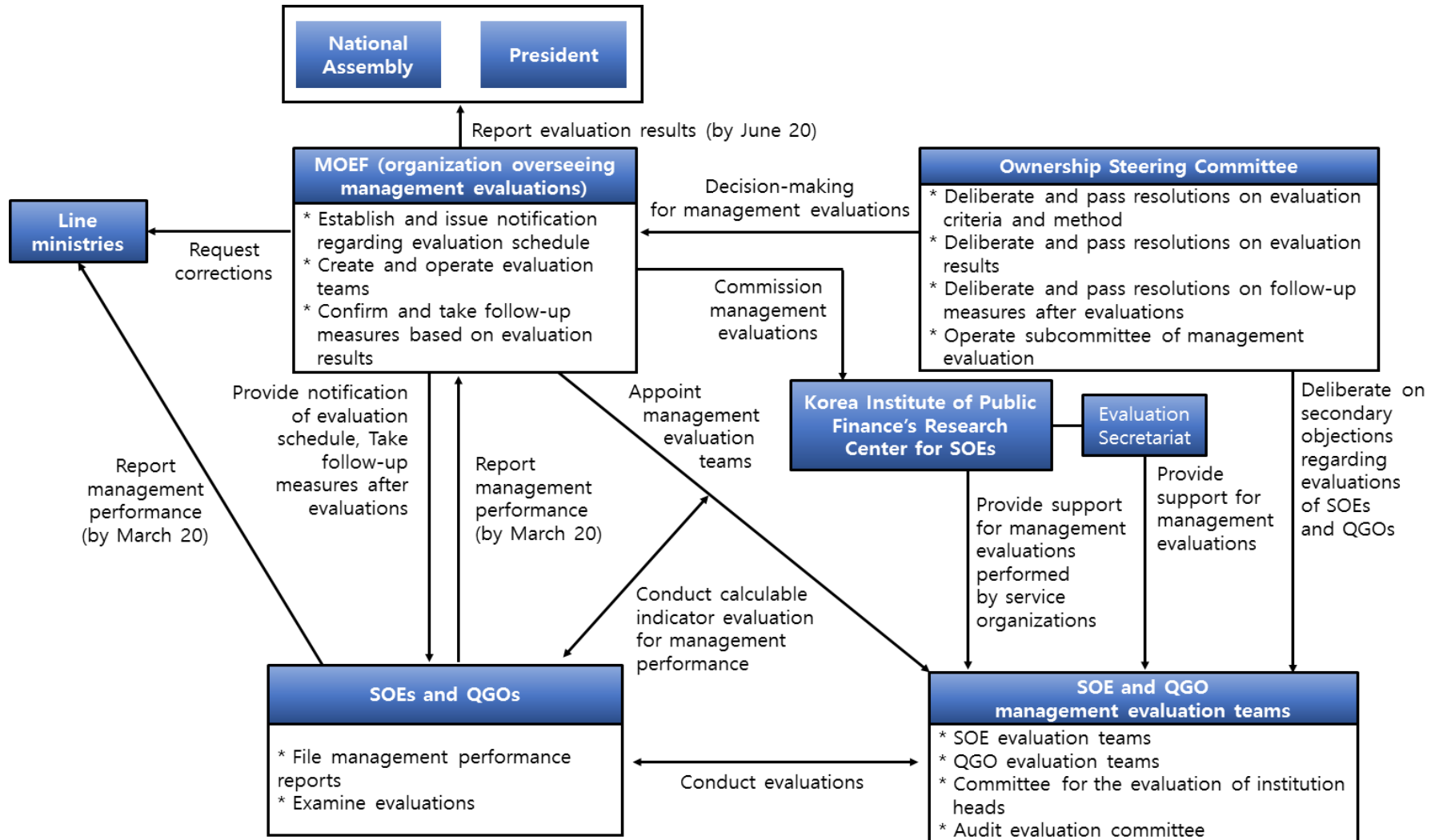
2004

- Framework Act on the Management of Government-Affiliated Institutions (FAMGAI)

2008

- **Act on the Management of Public Institutions (AMPI)**

Governance structure

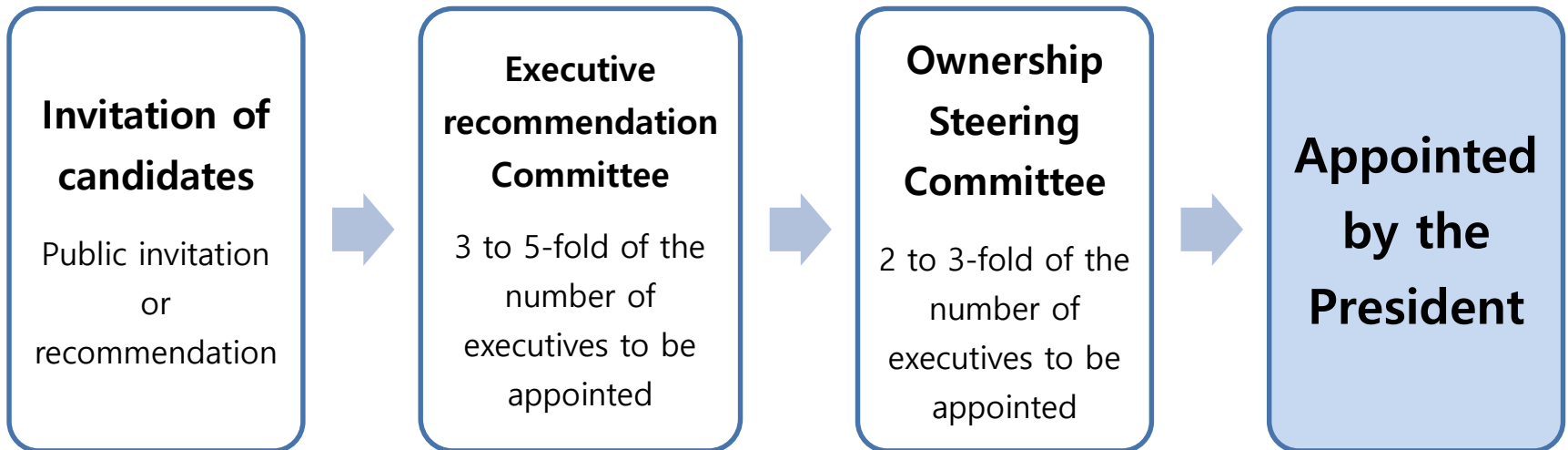


Executive officers

Composition of Executive members

Head	<ul style="list-style-type: none"> • 3 year term • with possibility of extension on a yearly basis with good job performance 		
Board of Directors	<ul style="list-style-type: none"> • 2 year term • Consists of standing & non-standing directors • A majority of the fixed number of directors must be non-standing directors • No more than 15 people including the head 		
	Chairperson	Public corporations (≥2 trillion won asset)	Senior non-standing director
		Other entities	Institution Head
Audit Committee	<ul style="list-style-type: none"> • Consists of at least 3 directors (including one accounting or financial expert) 		
	Public corporations (≥2 trillion won asset)	mandatory	
	Other entities	Single-authority auditor	
	Chairperson	Appointed among non-standing directors	

Appointment procedures



Authority to appoint executive officers

Category		Public corporations	Quasi-governmental institutions
Head	Large-scale institutions	Recommended by the head of line ministry → appointed by the president	
	Small-scale institutions	The head of line ministry	
Standing directors		Head of institution	
Non-standing directors		Minister of Economy and Finance	The head of line ministry
Auditors	Large-scale institutions	Recommended by the Minister of Economy and Finance → appointed by the president	
	Small-scale institutions	Minister of Economy and Finance	

3 Management System of Public Institutions



Consolidated public disclosure system

Definition

- Building a monitoring system by the people

Mechanism

- Consolidated website (<http://www.alio.go.kr>)
- Self-disclosure at their own homepages

Meaning “inform”
in Korean

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A

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Integratedness: entire institutions

ALIO 공공기관 경영정보 공개시스템
All Public Information In-One

알리오안내

경영공시

통계

기타정보



공공기관의 경영정보를 통합하여 공개하는

알리오 시스템



항목별 공시



기관별 공시



통계검색



공공기관 현황



알리오플러스



부패행위
채용비리신고

Disclosure items

- Comprehensive disclosure consists of the following five items, which are divided into 42 sub-items.

	Classification	Sub-Classification
1	General Status	General Status
2	Operation of Institution	Personnel, Salaries, welfare expenses, current status of labor unions, internal regulations, disciplinary actions and penalty for employees, information on litigations and legal advisers, support system for work and life balance
3	Core businesses and Management performance	Condensed balance sheet, condensed income statement, revenue and expenditure, core businesses, ongoing investments, status of capital and shareholders, investments and contributions, annual endowments and grants, tax payment status, audit reports
4	Internal & external assessment	Feedback from the National Assembly, feedback from the Board of Audit and Inspection of Korea & the competent ministry, performance evaluation results, feedback from the performance evaluation results, results of the customer satisfaction surveys
5	Notice	Innovative cases, hiring, contract, research reports

Customer satisfaction survey system

- ◆ Customer satisfaction level is considered one of the key indicators that can measure SOEs and QGOs performance.
- ◆ The survey system for customer satisfaction is basically developed as a tool for managing customer satisfaction in SOEs and QGOs to enhance public service and enhance the national interest by objectively measuring and disclosing the service level of SOEs and QGOs.

Customer satisfaction survey system

Comparison of PCSI and PCSI 2.0 customer satisfaction survey models

Categories	PCSI model	PCSI 2.0 model
Measuring item composition system	Consists of three models -Service quality model, customer satisfaction model, and performance model	Consists of five models -Service quality model, social responsibility model, service comparison evaluation model, customer satisfaction model, performance model
Definition of customer	Direct beneficiary only	Include direct and indirect customers
Customer type classification	No distinction between individual and corporate customers	Differentiate measuring items by dividing them into individual and corporate customers
Composition of measurement questions	36 questions (as of 2014)	21 questions (as of 2015)
Response scale	Seven-point scale	11-point scale
Investigation method	Individual interview	Telephone survey
Customer satisfaction index estimation method	The weighted average of the three subcategories of the satisfaction model (full satisfaction, element satisfaction, and social satisfaction)	Calculate the score of the three prerequisites and the satisfaction model of the quality of service, social responsibility, and discrepancies as weighted average values

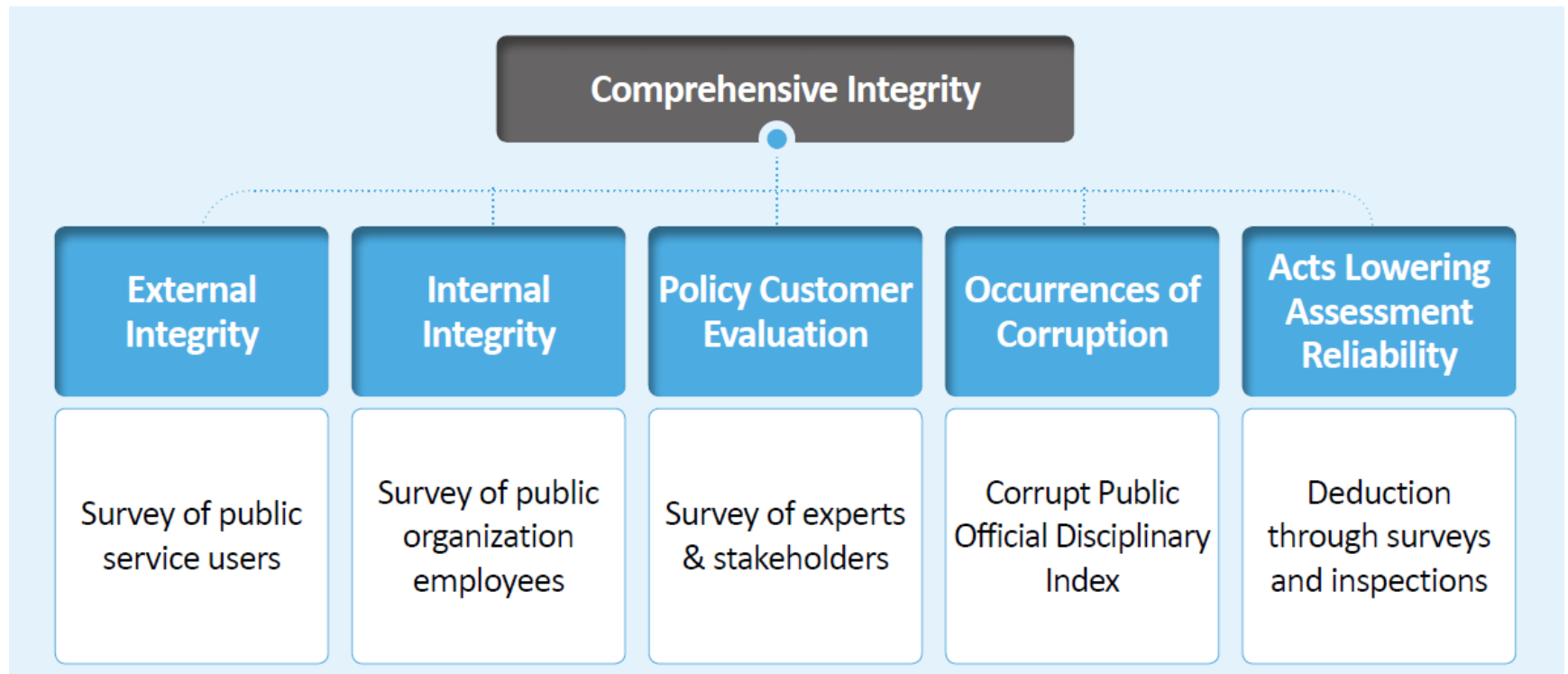
Integrity measurement

Necessity and purpose of integrity measurement

- ◆ Measurement result provides basic data for enhancing integrity and effective anti-corruption activities by providing objective and scientific measurement of the integrity of SOEs and QGOs.
- ◆ All central government agencies, local government's autonomous entities (executive agencies), provincial councils, and office of educations are subject to integrity measurement.
- ◆ Public disclosure of the integrity level will contribute to spread and establish social consensus on the corruption prevention and integrity improvement not only in the public sector but also in the private sector.

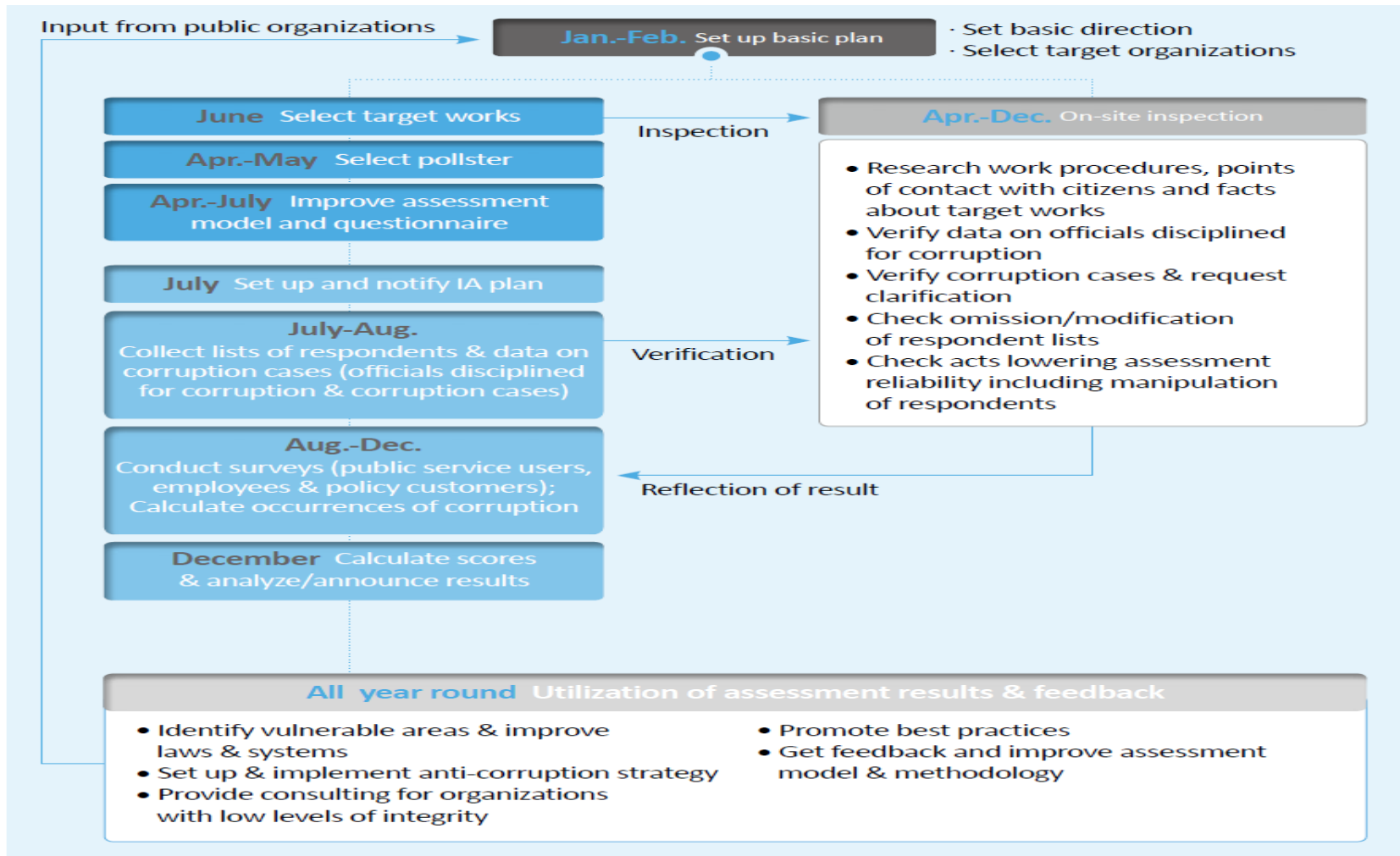
Integrity measurement

It is composed of the results of the survey of external integrity, internal integrity, and policy customer evaluation (weighted sum), the incidence of corruption events (deduction), and the degree of reliability impairment (deduction).



Integrity measurement

Procedure to measure integrity



4 Performance Evaluation System of Public Institutions



The Goal of the Performance Evaluation

■ Goal of Evaluation

Improvement of the public service for the citizens

Benefits to

- ◎ Carrying out the national economic role corresponding the mission of foundation
- ◎ Establishing the self-controlling and responsible management of the PIs

■ Function of Evaluation

Enhancing public values and management efficiency

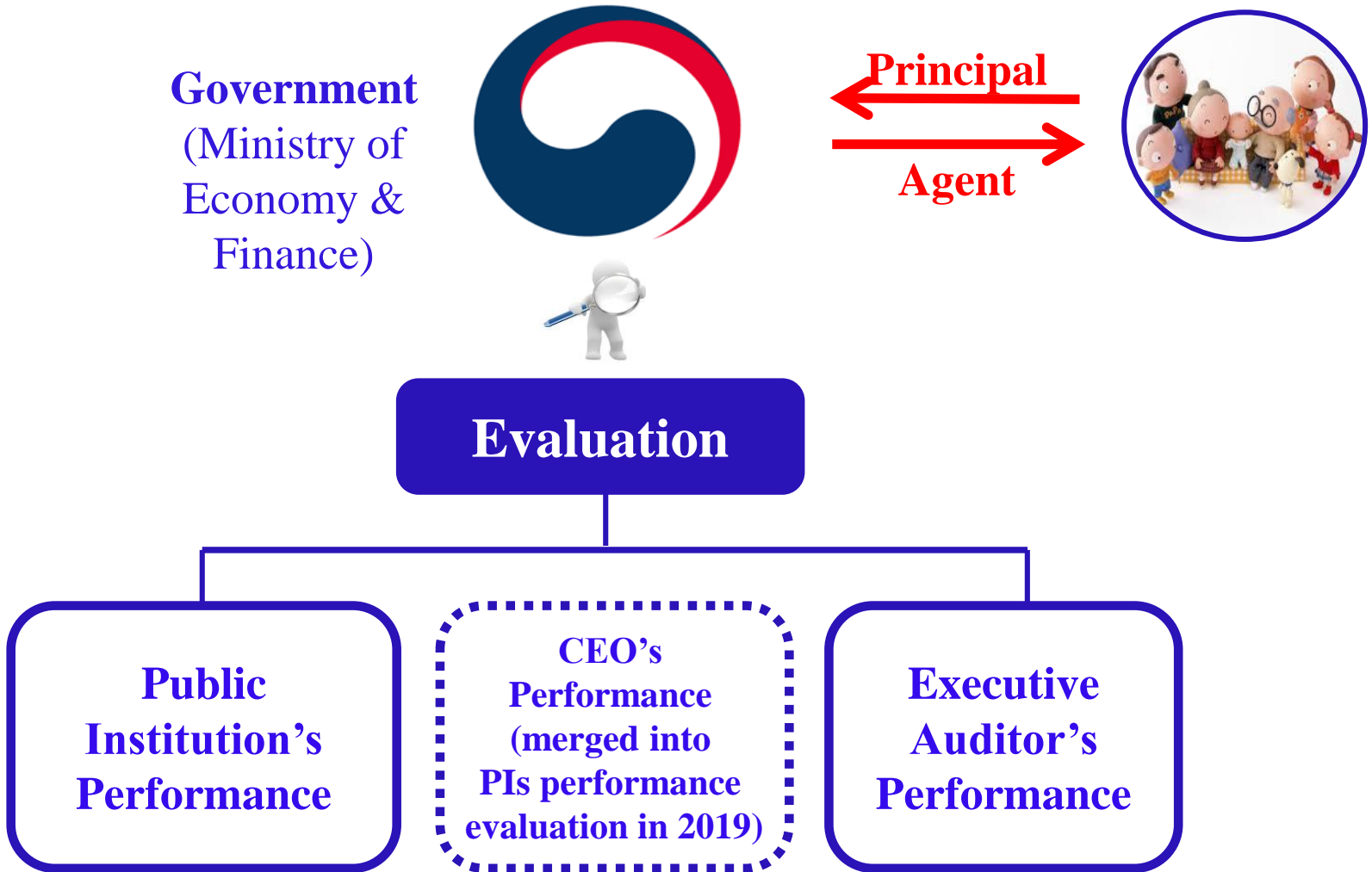
Offering the expertise consulting about the improvements needed

■ Object of Evaluation

Effort for business management and outcome of PIs

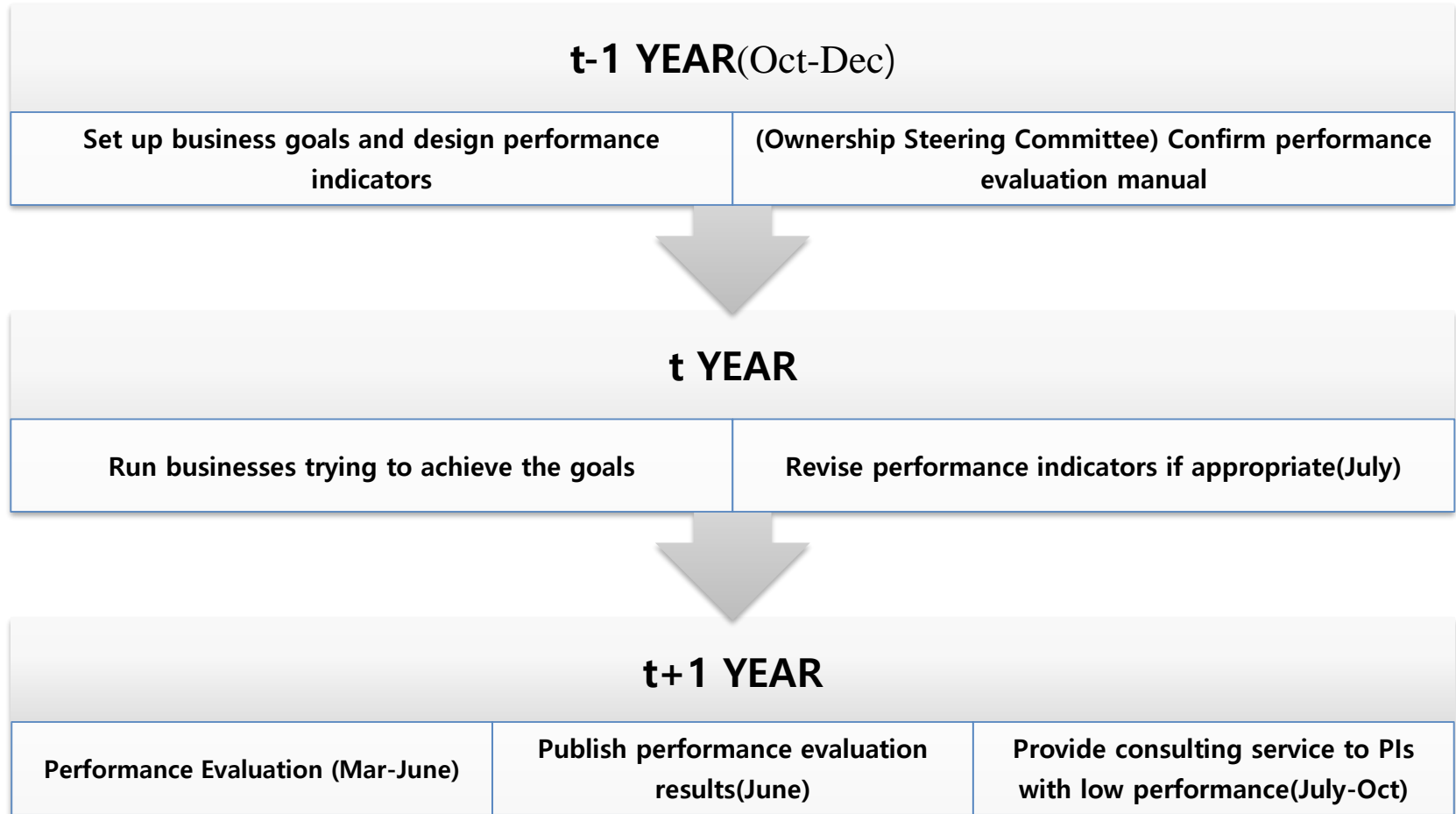
The Goal of the Performance Evaluation

Performance Evaluation as an Effective tool for directing PIs



Performance Evaluation Procedure

3-Year Cycle



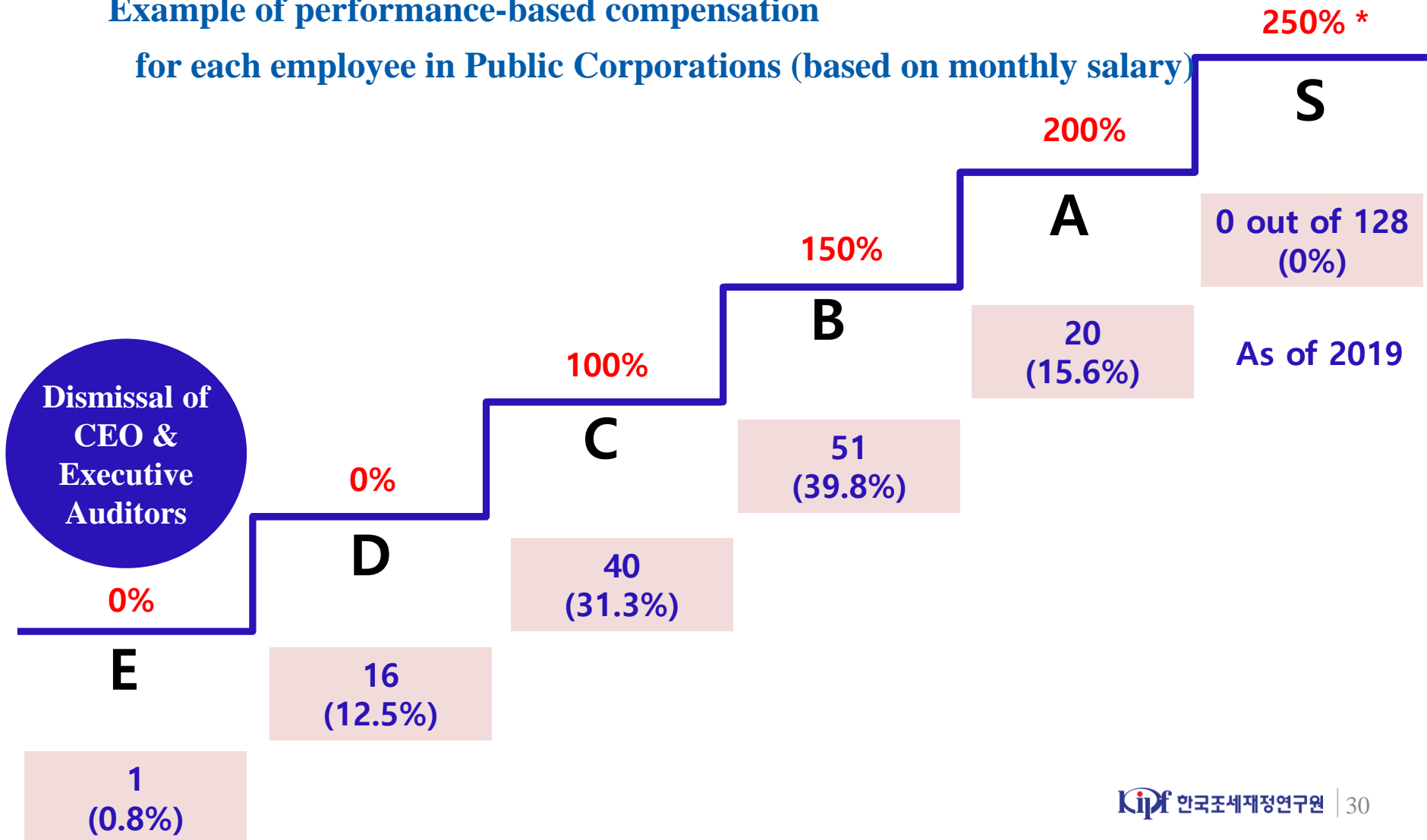
Performance Evaluation Indicators

Category	Main Indicators	Weighted Values	
		SOEs	QGOs
Common Management Activities	<ul style="list-style-type: none"> - Business strategy & Leadership - Implementation of social values - Business process efficiency - Management of organization, human resources and finance - Management of remuneration and employee welfare benefits - Innovation and communication activities 	55	50
Main business Activities	<ul style="list-style-type: none"> - Aggregate evaluation of core business plans, activities and performances 	45	50

Feedback: Compensation & Personnel Measures

Example of performance-based compensation

for each employee in Public Corporations (based on monthly salary)



5 Implication of Current Policy Orientation and Performance Evaluation



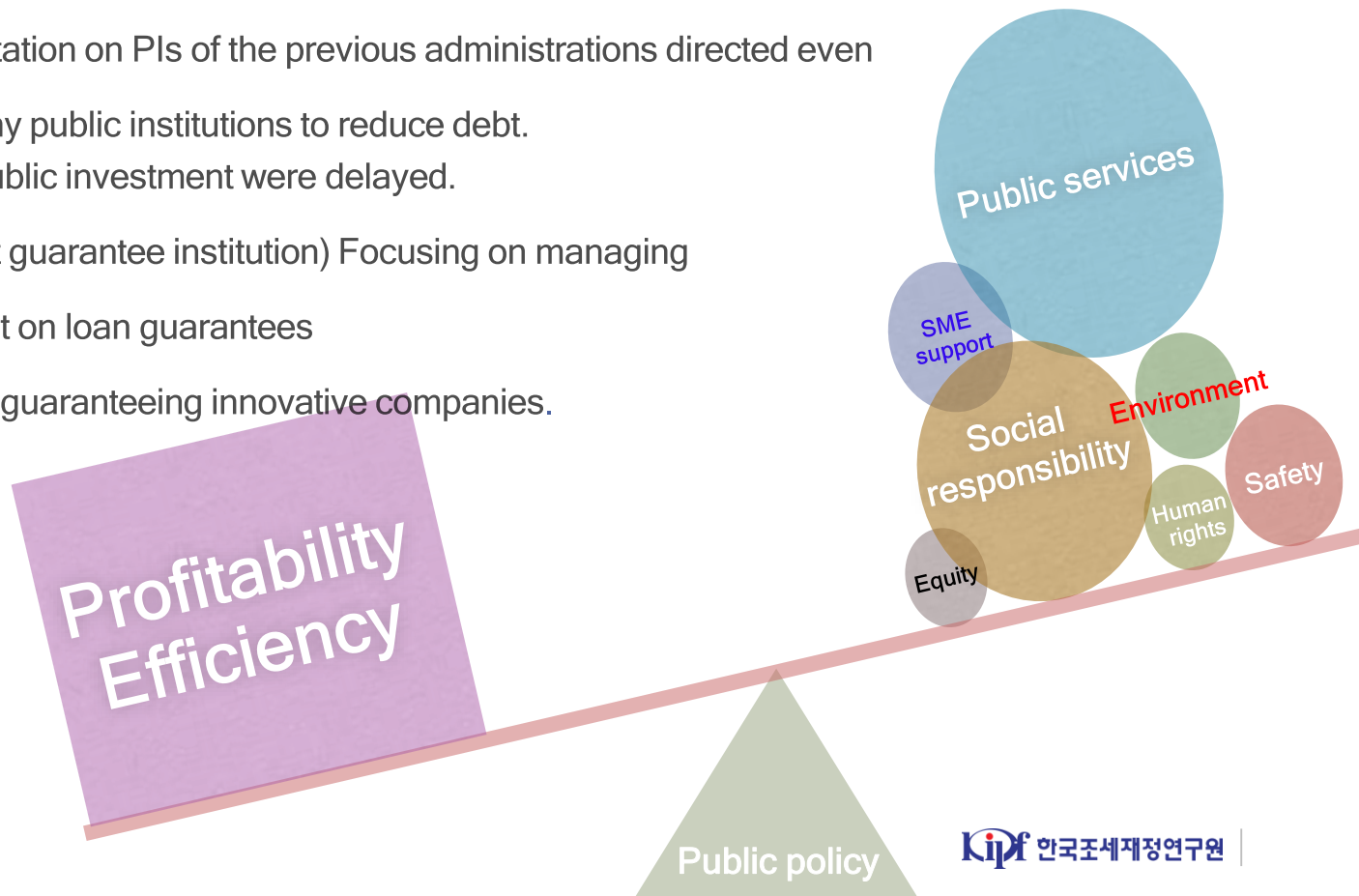
Balancing Policy Values

From the biased to the balanced policy values

- Evaluation indicators of performance evaluation direct and motivate PIs to pursue profitability.

The policy orientation on PIs of the previous administrations directed even financially healthy public institutions to reduce debt.
→ Necessary public investment were delayed.

(Case of a credit guarantee institution) Focusing on managing the risk of default on loan guarantees
→ deficiency in guaranteeing innovative companies.



PI Policy Direction of the Current Administration

“

People-oriented

”

Creating better **SOCIAL VALUES**

Voluntarily participate in innovation

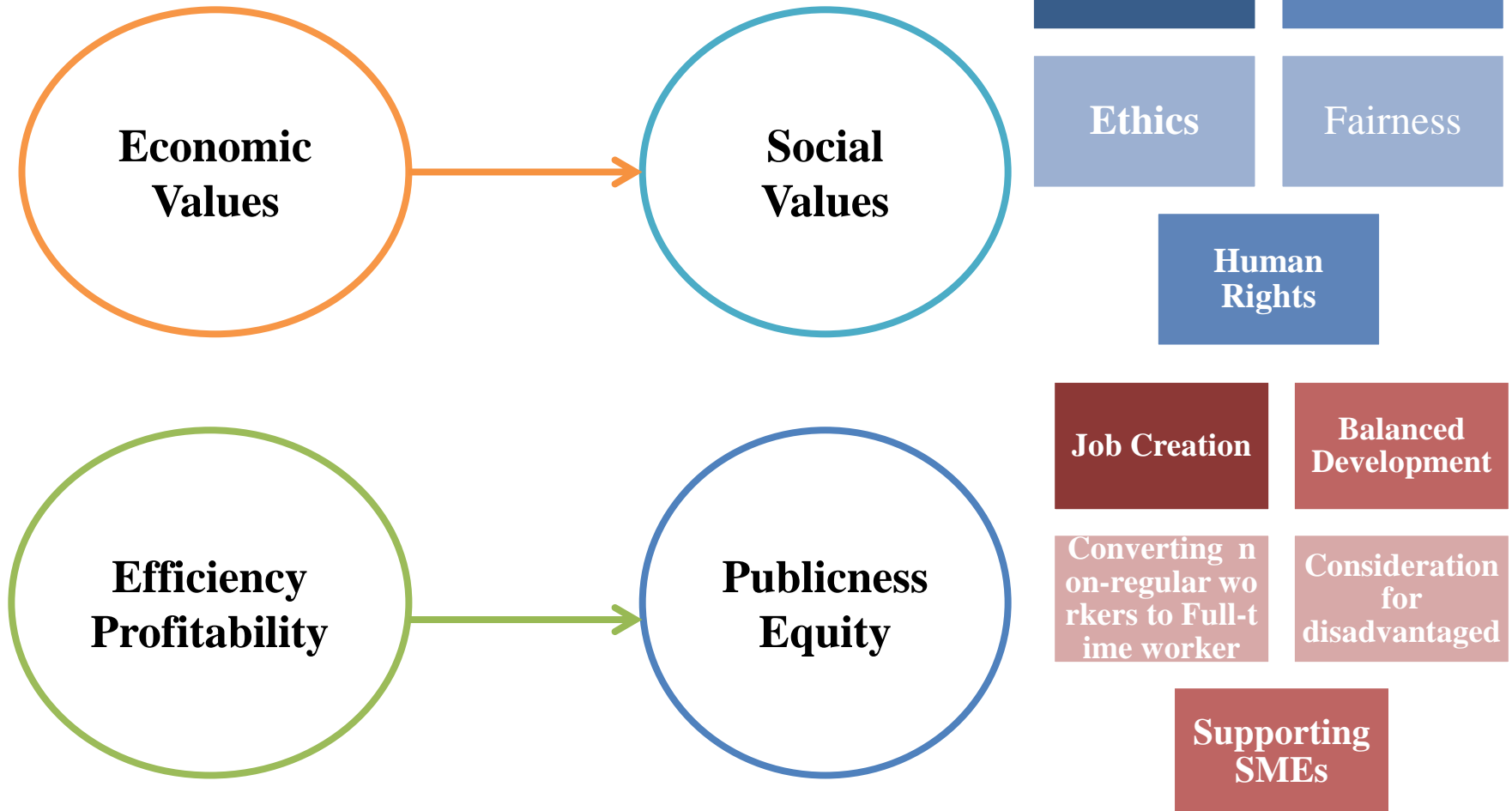
Transparent & responsible

Public institutions



PI Policy Direction of the Current Administration

Changing the Policy Paradigm



Improvement in Performance Evaluation Indicators

Social Values (20→30 points)

- Job Creation
- Equal opportunity and social integration
- Safety and environment
- Symbiosis-collaboration and local development
- Ethical management

Innovation & Innovative Growth (new indicator, add-points)

- Innovation (3 points)
- Innovative Growth (2 add-points)
 - Creating demand for new-technology
 - R&D

Main Business

- Differentiate evaluation in accordance with the nature of PIs
- Evaluation on effort for creating social values in the process of doing main business

Participation of “Citizen Observers”

Outcomes of Performance Evaluation (1)

- Reinforced the Proper Role of Each Public Institution
- Improved the Quality of Public Services

Improved Accessibility of Public Services



By Reducing “excluded from coverage items” ➡ Increased national health insurance coverage & Relief medical expense for citizens (NHIS)



Provided public railroad service to Backwoods area using “Public Taxi Service” (KORAIL)



Provided “One-Stop Visit Service” ➡ Gas Fare Relief and Expand Beneficiaries (KOGAS)

Providing “Preemptive & Preventive” Public Services Using New-Technologies



Provided Social Safety-Net for elderly people using Intelligent Electric Metering system (KEPCO)



Applied “ICT Intelligent Control System” for Safety Control of the Ship(IPA)



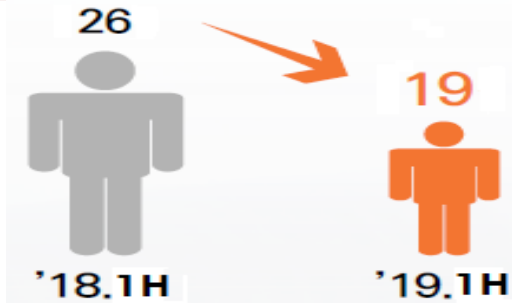
Applied “Smart Airport Service” using Biometric Security Inspection & AI Guidance Robot (IIAC)

Outcomes of Performance Evaluation (2)

Creating Social Values

Safety

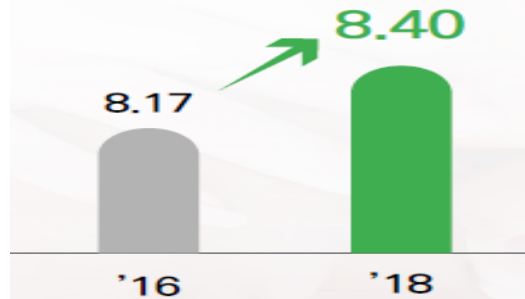
- Increase evaluation points for Safety (2→6)
- Propose dismissal of CEO if he/her is responsible for serious accident or has Attributable Reasons
- Reinforce safety-related evaluation when signing a public-contract
- Establish a “Safety Framework Plan” each PIs



The number of safety-related deaths

Ethics

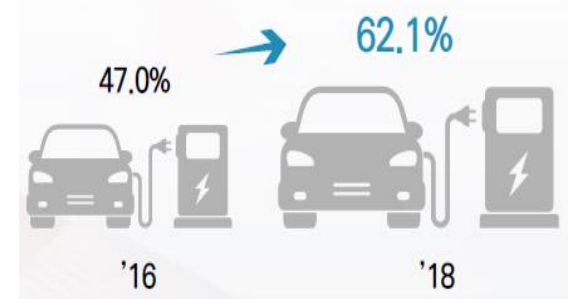
- “One-Strike-Out” policy for recruiting corruption
- Restriction on Reducing Disciplinary Punishment in case of recruiting corruption
- Mandatory Cast of outside Interviewer in the recruiting process



Score of Comprehensive Integrity Assessment

Environment

- Expanded a compulsory policy for PIs of purchasing environment-friendly vehicle
- Unified the water-management system (K-Water)
- Converted plastic waste into electric power generating fuel (KOSPO)



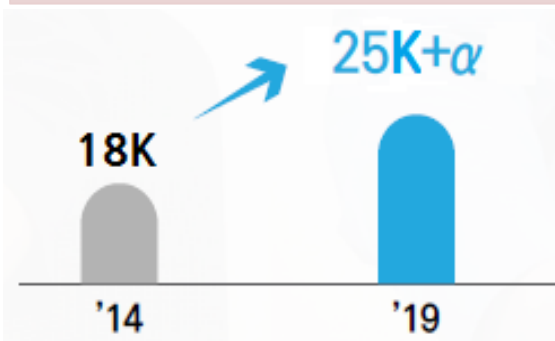
Environment-friendly vehicle purchasing ratio

Outcomes of Performance Evaluation (3)

Publicness and Fairness

Job Creation

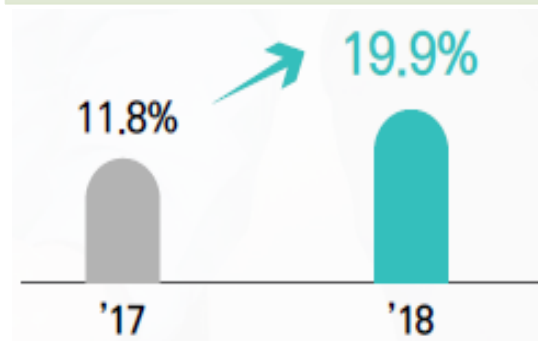
- PIs played a key Role of supplementing Job Creation in the Private Sector
- Improvement in employment quality (non-regular → regular worker)



The number of new hire

Social Equity

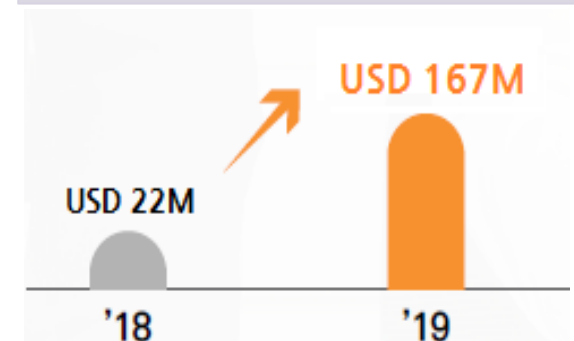
- Established Gender Equity Quota policy
- Mandatory recruiting for local talent
- “Blind Recruiting” policy



The ratio of female executive

Support SMEs

- PIs purchasing innovative product of SMEs
- Opened a “Integrated Tech-Market” by SOC Public Institutions
- Financial Support of Policy Finance Institution for Innovative Growth Fund



The amount of SMEs Product Purchased by PIs

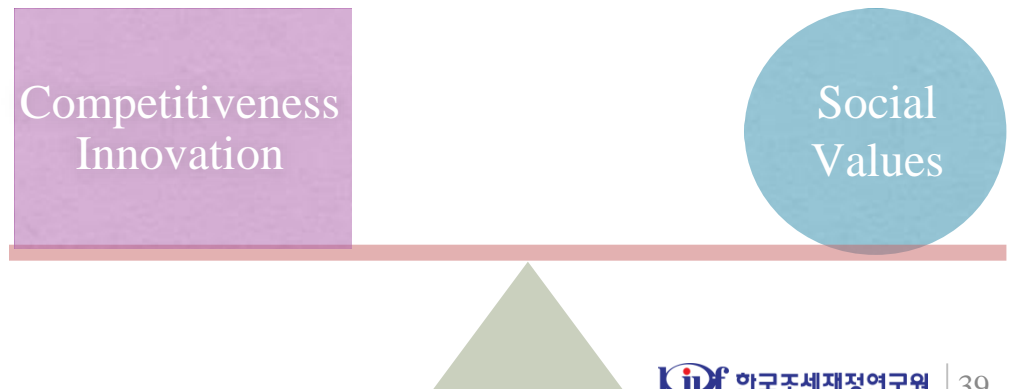
Toward a “Balanced” Performance Evaluation

There are some critics which argue that over-emphasizing on social values may not be desirable.

Management efficiency, as well as social values, is an important value to PIs because many PIs are operated by the taxpayer’s money

The “balanced” policy values are needed in performance evaluation

In addition to social values, PIs should improve competitiveness by innovation.



Thank you

